Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No. * SR 2024 - * 001
Amendment No. (req. for Amendments *)

Filing by Fixed Income Clearing Corporation

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
✓	☐	☐	☐	✓	☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

☐ 19b-4(f)(1)	✓ 19b-4(f)(4)
☐ 19b-4(f)(2)	☐ 19b-4(f)(5)
☐ 19b-4(f)(3)	☐ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐

Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐

Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Amend Methodology Documents

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * [redacted]
Last Name * [redacted]
Title * [redacted]
E-mail * RuleFilingAdmin@dtcc.com
Telephone * [redacted]
Fax

Signature

Pursuant to the requirements of the Securities Exchange of 1934, Fixed Income Clearing Corporation has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 01/23/2024

By [redacted]
(Name *)

(Title *)
[redacted]

NOTE: Clicking the signature block at right will initiate digitally signing the form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Date: 2024.01.23 11:12:56 -05'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information * Add Remove View Narrative - Benchmark Proposal.docx	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change * Add Remove View Exhibit 1A - Benchmark Proposal.doc	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2- Notices, Written Comments, Transcripts, Other Communications Add Remove View	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G. ☐ Exhibit Sent As Paper Document
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit 3a FICC (Redacted) - FICC Im Exhibit 3b FICC (Redacted) - Schedule	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change. ☐ Exhibit Sent As Paper Document
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View Exhibit 5 FICC (Redacted) - QRM Me	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) The proposed rule change of Fixed Income Clearing Corporation ("FICC") is annexed hereto as Exhibit 5.[1]

FICC is proposing to amend the MBSD Methodology and Model Operations Document – MBSD Quantitative Risk Model ("MBSD QRM Methodology Document"),[2] in order to remove references to specific benchmarks used to calculate the minimum margin amount ("Minimum

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1 Capitalized terms used herein and not defined shall have the meaning assigned to such terms in the FICC's Government Securities Division ("GSD") Rulebook ("GSD Rules") and FICC's Mortgage-Backed Securities Division ("MBSD") Clearing Rules ("MBSD Rules", and together with the GSD Rules, the "Rules"), available at www.dtcc.com/legal/rules-and-procedures.aspx.

2 The MBSD QRM Methodology was filed as a confidential exhibit in the rule filing and advance notice for MBSD sensitivity VaR. See Securities Exchange Act Release Nos. 79868 (Jan. 24, 2017), 82 FR 8780 (Jan. 30, 2017) (SR-FICC-2016-007) and 79843 (Jan. 19, 2017), 82 FR 8555 (Jan. 26, 2017) (SR-FICC-2016-801) (collectively, "MBSD Margin Proxy Approval Order"). The MBSD QRM Methodology has been amended. See Securities Exchange Act Release Nos. 85944 (May 24, 2019), 84 FR 25315 (May 31, 2019) (SR-FICC-2019-001), 90182 (Oct. 14, 2020), 85 FR 66630 (Oct. 20, 2020) (SR-FICC-2020-009), 92303 (Jun. 30, 2021), 86 FR 35854 (Jul. 7, 2021) (SR-FICC-2020-017) ("MBSD Minimum Margin Amount Approval Order"), 95070 (Jun. 8, 2022), 87 FR 36014 (Jun. 14, 2022) (SR-FICC-2022-002), and 97342 (Apr. 21, 2023), 88 FR 25721 (Apr. 27, 2023) (SR-FICC-2023-003).

Margin Amount")[3] and the alternative volatility calculation ("Margin Proxy")[4] at MBSD. FICC would replace the references to specific benchmarks with a more general description. FICC is also proposing to make certain corrections and technical changes to the GSD Methodology Document – GSD Initial Market Risk Margin Model[5] ("GSD QRM Methodology Document,"

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3 FICC has adopted a minimum margin amount into its MBSD margin methodology. The Minimum Margin Amount uses a dynamic haircut method based on observed to-be-announced ("TBA") securities price moves and serves as a minimum MBSD value-at-risk ("VaR") charge ("VaR Charge") for net unsettled positions, calculated using the historical market price changes of certain benchmark TBA securities. See MBSD Minimum Margin Amount Approval Order, supra note 2.

As defined in MBSD Rule 1 (Definitions), the term "TBA" means a contract for the purchase or sale of mortgage-backed security to be delivered at an agreed-upon future date because as of the transaction date, the seller has not yet identified certain terms of the contract, such as the pool number and number of pools, to the buyer. Supra note 1.

The term "VaR Charge" is defined in MBSD Rule 1 and means, with respect to each margin portfolio, a calculation of the volatility of specified net unsettled positions of a Clearing Member, as of the time of such calculation (with respect to the specified net unsettled positions as of the time of such calculation). Such volatility calculations shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Securities and Exchange Act of 1934 ("Act"). Such calculation shall be made utilizing such assumptions (including confidence levels) and based on such historical data as FICC deems reasonable, and shall cover such range of historical volatility as FICC from time to time deems appropriate. To the extent that the primary source of such historical data becomes unavailable for an extended period of time, FICC shall utilize the Margin Proxy as an alternative volatility calculation. In its assessment of volatility, FICC shall calculate an additional bid-ask spread risk charge measured by multiplying the gross market value of each Net Unsettled Position by a basis point charge, where the applicable basis point charge shall be reviewed at least annually. If the volatility calculation is lower than the VaR Floor then the VaR Floor will be utilized as such Clearing Member's VaR Charge. Supra note 1.

4 FICC has adopted procedures that would govern in the event that the vendor fails to provide risk analytics data used by FICC to calculate the MBSD VaR Charge. These procedures include the application of the Margin Proxy, which would be applied as an alternative volatility calculation for the MBSD VaR Charge (subject to the VaR Floor, as defined in MBSD Rule 1, supra note 1) if FICC determines that the data disruption would extend beyond five (5) business days. See MBSD Margin Proxy Approval Order, supra note 2.

5 The GSD QRM Methodology Document was filed as a confidential exhibit in the rule filing and advance notice for GSD sensitivity VaR. See Securities Exchange Act Release Nos. 83362 (Jun. 1, 2018), 83 FR 26514 (Jun. 7, 2018) (SR-FICC-2018-001) and 83223

and together with the MBSD QRM Methodology Document, the "QRM Methodology Documents") and a clarification to the MBSD QRM Methodology Document, as described in greater detail below.

FICC is requesting confidential treatment of the QRM Methodology Documents and has filed them separately with the Secretary of the U.S. Securities and Exchange Commission (the "Commission").[6]

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by a Deputy General Counsel of FICC on January 19, 2024, pursuant to delegated authority from FICC's Board of Directors.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

The purpose of this rule filing is to amend the QRM Methodology Documents to remove references to specific benchmarks used for the Minimum Margin Amount and Margin Proxy at MBSD. FICC would replace these references to specific benchmarks with a more general description. FICC is also proposing to make certain corrections and technical changes to the GSD QRM Methodology Document and a clarification to the MBSD QRM Methodology Document.

Replacing References to Specific Benchmarks for Minimum Margin Amount and Margin Proxy of MBSD With a More General Description in the MBSD QRM Methodology Document

The MBSD QRM Methodology Document provides the methodology by which FICC calculates the MBSD VaR Charge. The MBSD QRM Methodology Document specifies model inputs, parameters and assumptions, among other information. With respect to Minimum Margin Amount and Margin Proxy, the MBSD QRM Methodology Document refers to the specific benchmarks that are in use. FICC is proposing to remove the specific benchmark

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(May 11, 2018), 83 FR 23020 (May 17, 2018) (SR-FICC-2018-801). The GSD QRM Methodology has been subsequently amended. See Securities Exchange Act Release Nos. 85944 (May 24, 2019), 84 FR 25315 (May 31, 2019) (SR-FICC-2019-001), 90182 (Oct. 14, 2020), 85 FR 66630 (Oct. 20, 2020) (SR-FICC-2020-009), 93234 (Oct. 1, 2021), 86 FR 55891 (Oct. 7, 2021) (SR-FICC-2021-007), 95605 (Aug. 25, 2022), 87 FR 53522 (Aug. 31, 2022) (SR-FICC-2022-005), and 97342 (Apr. 21, 2023), 88 FR 25721 (Apr. 27, 2023) (SR-FICC-2023-003).

[6] 17 CFR 240.24b-2.

references and replace them with a more general description in order to provide FICC with more flexibility in updating the benchmarks. This is because FICC has observed that vendors may from time to time modify, suspend or discontinue benchmarks.[7] Such occurrences do not happen frequently, however, because the references to the specific benchmarks are currently codified in the MBSD QRM Methodology Document, any changes or updates to the benchmarks would require a proposed rule change to be filed with the Commission. In order to provide FICC with more flexibility in updating the benchmarks to timely reflect changes and/or updates, FICC is proposing to replace references to specific benchmarks in the MBSD QRM Methodology Document with a more general description.

Specifically, with respect to the Minimum Margin Amount calculation, FICC is proposing to remove the specific references to default benchmark TBA programs from the MBSD QRM Methodology and replacing it with language that FICC would designate daily benchmark TBA for each of the CONV30, CONV15, GNMA30, and GNMA15 programs based on the TBA with the largest gross settlement amount in the program. Similarly, with respect to the Margin Proxy calculation, FICC is proposing to remove the specific references to default benchmark TBAs as well as the corresponding reference current coupons and replacing them with language that FICC would designate daily benchmark TBAs for each of the CONV30, CONV15, GNMA30, and GNMA15 programs based on the TBA coupon rate closest to or identical with the then current coupon rate. By replacing references to specific benchmarks in the MBSD QRM Methodology Document with a more general description, FICC would no longer need to submit subsequent rule filings to make updates or changes to these benchmarks unless such changes require an advance notice.[8] Nonetheless, as part of the key model construct, benchmarks are reviewed at least annually through FICC's model validation process, and any changes to the benchmarks would continue to be subject to DTCC's internal model governance process as described in the Clearing Agency Model Risk Management Framework.[9]

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[7] For example, one of the benchmarks specified in the MBSD QRM Methodology Document for the GNMA program is GNMA I (i.e., MTGEGNSF Index from Bloomberg for GNMA I 30-Year current coupons), which is used to calculate the Margin Proxy; however, FICC has recently learned that GNMA I is no longer available due to diminishing trading volume. Accordingly, following the implementation of these proposed changes, FICC plans to replace GNMA I with GNMA II (i.e., MTGEG2SF Index from Bloomberg for GNMA II 30-Year current coupons) in the calculation of Margin Proxy.

[8] Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Rule 19b-4(n)(1)(i) under the Act, if a change materially affects the nature or level of risks presented by FICC, then FICC is required to file an advance notice filing. 12 U.S.C. 5465(e)(1) and 17 CFR 240.19b-4(n)(1)(i).

[9] The Clearing Agency Model Risk Management Framework ("Framework") sets forth the model risk management practices that FICC and its affiliates The Depository Trust Company ("DTC") and National Securities Clearing Corporation ("NSCC," and together with FICC and DTC, the "Clearing Agencies") follow to identify, measure, monitor, and

Under the proposal, FICC would delete references to specific benchmarks from the Minimum Margin Amount and the Margin Proxy sections of the MBSD QRM Methodology Document. With respect to the calculation of the Minimum Margin Amount, the MBSD QRM Methodology Document would provide that the risk factors are calculated based on the applicable benchmark TBA for each program,[10] and each day, the benchmark TBA is designated by FICC based on the TBA with the largest gross settlement amount in the program. Similarly, the MBSD QRM Methodology Document would also provide that in calculating the Margin Proxy, the risk factors are calculated based on the benchmark TBA for each program,[11] and each day, the benchmark TBA is designated by FICC based on the TBA coupon rate closest to or identical with the then current coupon rate.

Certain Corrections and Technical Changes to the GSD QRM Methodology Document and a Clarification to the MBSD QRM Methodology Document

FICC is proposing to make certain corrections and technical changes to the GSD QRM Methodology Document and a clarification to the MBSD QRM Methodology Document, as described in detail below.

(1) GSD QRM Methodology Document

FICC is proposing to make certain corrections and technical changes to the GSD QRM Methodology Document. Specifically, FICC would correct two typographical errors – one in the description of market risks associated with products cleared by GSD, and the other in the description of key assumptions for Blackout Period Exposure. FICC would also correct two

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manage the risks associated with the design, development, implementation, use, and validation of quantitative models. The Framework is filed as a rule of the Clearing Agencies. See Securities Exchange Act Release Nos. 81485 (Aug. 25, 2017), 82 FR 41433 (Aug. 31, 2017) (SR-DTC-2017-008; SR-FICC-2017-014; SR-NSCC-2017-008), 88911 (May 20, 2020), 85 FR 31828 (May 27, 2020) (SR-DTC-2020-008; SR-FICC-2020-004; SR-NSCC-2020-008), 92380 (Jul. 13, 2021), 86 FR 38140 (Jul. 19, 2021) (SR-FICC-2021-006), 92381 (Jul. 13, 2021), 86 FR 38163 (Jul. 19, 2021) (SR-NSCC-2021-008), 92379 (Jul. 13, 2021), 86 FR 38143 (Jul. 19, 2021) (SR-DTC-2021-013), 94271 (Feb. 17, 2022), 87 FR 10411 (Feb. 24, 2022) (SR-FICC-2022-001), 94272 (Feb. 17, 2022) 87 FR 10419 (Feb. 24, 2022) (SR- NSCC-2022-001), 94273 (Feb. 17, 2022), 87 FR 10395 (Feb. 24, 2022) (SR-DTC-2022-001), 97890 (Jul. 13, 2023), 88 FR 46287 (Jul. 19, 2023) (SR-FICC-2023-008), 97892 (Jul. 13, 2023), 88 FR 46232 (Jul. 19, 2023) (SR-NSCC-2023-006), and 97891 (Jul. 13, 2023), 88 FR 46336 (Jul. 19, 2023) (SR-DTC-2023-006).

10 In calculating the Minimum Margin Amount and the Margin Proxy, FICC partitions each MBSD member portfolio into four programs – CONV30, GNMA30, CONV15, and GNMA15.

11 Id.

grammatical errors - one in the description of market risks associated with products cleared by GSD and the other in the description of certain factors for VaR determination.

Appendix 4 (Related Methodology for MBSD Sensitivity VaR) to the GSD QRM Methodology Document currently includes certain sections from the MBSD QRM Methodology Document with slightly different numbering sequences. In order to eliminate duplicity and prevent potential inconsistency with the MBSD QRM Methodology Document, FICC is proposing certain technical changes to remove Appendix 4 (Related Methodology for MBSD Sensitivity VaR) from the GSD QRM Methodology Document and update references thereto to directly refer to the relevant section name(s) in the MBSD QRM Methodology Document. FICC is also proposing an update to the reference of the MBSD QRM Methodology Document in the Bibliography section by removing the date from the title of the document. Removing the date from the title of this document in the Bibliography section of the MBSD QRM Methodology Document would help this reference from becoming stale or outdated as the MBSD QRM Methodology gets updated from time to time.

(2) MBSD QRM Methodology Document

FICC is proposing to make a clarification to the MBSD QRM Methodology Document. Specifically, in the section of the MBSD QRM Methodology Document that describes the calculation of Margin Proxy, FICC would add a sentence that describes FICC's current practice when the current coupon rate used to determine the benchmark is missing, unavailable, or deemed unreliable. Specifically, the additional sentence would provide that if the current coupon rate is missing, unavailable, or deemed unreliable for a particular program, then FICC would use the latest available coupon rate to determine the benchmark TBA or obtain the current coupon rate from an alternative source.

Impact Study

FICC has conducted an impact study for the period from June 2022 to May 2023 ("Impact Study") assessing the change with respect to the Margin Proxy.[12] The result of the Impact Study indicates that, if FICC had replaced GNMA I (i.e., MTGEGNSF Index from Bloomberg for GNMA I 30-Year current coupons) with GNMA II (i.e., MTGEG2SF Index from Bloomberg for GNMA II 30-Year current coupons) when calculating the Margin Proxy during

12 There is no anticipated impact from this proposal with respect to the Minimum Margin Amount from Jun. 2022 to May 2023. This is because under the proposal, with respect to the Minimum Margin Amount, GNMA I TBAs would be added as a potential benchmark TBA in addition to the currently existing default benchmark TBAs, i.e., GNMA II TBAs; however, since 2022, GNMA II TBAs have consistently exceeded GNMA I TBAs in terms of position exposures at MBSD, therefore, based on the gross settlement amounts, irrespective of the addition of GNMA I TBAs as a potential benchmark TBA, the benchmark TBA designated by FICC would still have been GNMA II TBAs. Therefore, there is no anticipated impact from this proposal on the Minimum Margin Amount from Jun. 2022 to May 2023.

the Impact Study period, the MBSD backtesting coverage ratio with respect to the Margin Proxy would largely remain unchanged, with a 0.1% decrease in coverage ratio.

Specifically, if FICC had replaced GNMA I with GNMA II when calculating the MBSD Margin Proxy during the Impact Study period, the average daily aggregate Margin Proxy would have decreased $16.3 million (or approximately 0.29% of the average daily aggregate Margin Proxy). The average daily decrease in Margin Proxy per portfolio would have been approximately $213,000 (or approximately 0.29% of the average daily Margin Proxy per portfolio), with the largest daily dollar decrease of approximately $4.1 million (0.59% of the Margin Proxy for that day) and the largest percentage decrease of 2.07% (or approximately $1,900 decrease in Margin Proxy).

(b) Statutory Basis

FICC believes this proposal is consistent with the requirements of the Act, and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, FICC believes that the proposed changes to the QRM Methodology Documents described above are consistent with Section 17A(b)(3)(F) of the Act, for the reasons described below.[13]

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.[14]

FICC believes that amending the MBSD QRM Methodology Document to remove references to specific benchmarks used for the calculation of Minimum Margin Amount and Margin Proxy and replace them with a more general description as described above would enhance clarity and consistency for FICC. Specifically, the proposed changes would help ensure that the MBSD QRM Methodology Document (which has been filed confidentially) remains aligned with the slate of available benchmarks as it evolves over time. FICC believes that enhancing clarity and consistency with respect to changes to the aforementioned benchmarks would help ensure that FICC calculates and collects adequate margin from its Clearing Members. Collecting adequate margin from its Clearing Members would help FICC mitigate potential losses associated with liquidating a Clearing Member's portfolio in the event of Clearing Member default. Therefore, in the event of Clearing Member default, the proposed changes would help to ensure that FICC's operations would not be disrupted and non-defaulting Clearing Members would not be exposed to losses they cannot anticipate or control. In this way, the proposed changes to the aforementioned benchmarks would help assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[15]

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[13] 15 U.S.C. 78q-1(b)(3)(F).

[14] Id.

[15] Id.

FICC believes that the proposed changes, which constitute certain corrections and technical changes to the GSD QRM Methodology Document and a clarification to the MBSD QRM Methodology Document, would enhance the clarity and accuracy of the QRM Methodology Documents for FICC. The QRM Methodology Documents are used by FICC risk management personnel regarding the calculation of margin requirements. Having clear and accurate QRM Methodology Documents would help facilitate the accurate and smooth functioning of the margining process at FICC. The changes referenced in this paragraph would promote such clarity and accuracy. This would in turn allow FICC risk management to charge members an appropriate level of margin. As such, FICC believes that enhancing the clarity and accuracy of the QRM Methodology Documents would assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[16]

4. Self-Regulatory Organization's Statement on Burden on Competition

FICC believes that the proposed changes to amend the MBSD QRM Methodology Document to remove references to specific benchmarks used for the calculation of Minimum Margin Amount and Margin Proxy and replace them with a more general description as described above could have an impact on competition. Specifically, FICC believes that the proposed changes could burden competition because changes to the benchmarks could potentially result in larger Required Fund Deposit amounts for some members than the amounts currently calculated. This is because the proposed changes would provide FICC the flexibility to timely update benchmarks without a rule filing, which in turn could lead to either higher or lower haircut rates being used when calculating the Minimum Margin Amount and/or Margin Proxy. Using higher haircut rates when calculating the Minimum Margin Amount and/or Margin Proxy could result in larger Required Fund Deposit amounts for some members than the amounts currently calculated.

When the proposal results in a larger Required Fund Deposit for members, the proposed changes could burden competition for members that have lower operating margin or higher cost of capital compared to other members. Whether such burden on competition would be significant would depend on each member's financial status and the specific risks presented by each member's portfolio(s). Regardless of whether the burden on competition would be significant, FICC believes that any burden on competition imposed by the proposed changes would be both necessary and appropriate in furtherance of FICC's efforts to mitigate risks and meet the requirements of the Act,[17] as described in this filing and further below.

FICC believes the above-described burden on competition that may be created by the proposed changes to amend the MBSD QRM Methodology Document to remove references to specific benchmarks used in the calculation of the Minimum Margin Amount and Margin Proxy and replace them with a more general description would be necessary in furtherance of the Act.[18]

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16 Id.

17 15 U.S.C. 78q-1(b)(3)(I).

18 Id.

As stated above, these proposed changes would provide FICC with more flexibility in updating these benchmarks without a rule filing. As such, the proposed changes would enhance clarity and consistency for FICC by helping to ensure that the MBSD QRM Methodology Document (which has been filed confidentially) stays aligned with the slate of available benchmarks as it evolves over time. FICC believes that enhancing clarity and consistency for FICC with respect to changes to the aforementioned benchmarks would help ensure that FICC calculates and collects adequate margin from its Clearing Members and would thereby assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[19]

FICC also believes that the above-described burden on competition that could be created by the proposed changes to amend the MBSD QRM Methodology Document to remove references to specific benchmarks used for the calculation of Minimum Margin Amount and Margin Proxy and replace them with a more general description would be appropriate in furtherance of the Act.[20] FICC believes these proposed changes would be appropriate in furtherance of the Act because they have been designed to assure the safeguard of securities and funds which are in the custody or control of FICC or for which it is responsible. The proposal achieves this purpose by providing FICC additional flexibility when updating aforementioned benchmarks, thus ensuring that the MBSD QRM Methodology Document (which has been filed confidentially) remains aligned with the slate of available benchmarks as it evolves over time. Having a clear MBSD QRM Methodology Document would help facilitate the accurate and smooth functioning of the margining process at FICC and thereby assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[21]

FICC does not believe the proposed corrections and technical changes to the GSD QRM Methodology Document and the proposed clarification to the MBSD QRM Methodology Document described above would have any impact on competition. These proposed changes would enhance QRM Methodology Documents by providing additional clarity and accuracy. The proposed changes referenced above would not advantage or disadvantage any particular member of FICC or unfairly inhibit access to FICC's services. FICC therefore does not believe these proposed changes would have any impact, or impose any burden, on competition.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

FICC has not received or solicited any written comments relating to this proposal. If any additional written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

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[19] 15 U.S.C. 78q-1(b)(3)(F).

[20] 15 U.S.C. 78q-1(b)(3)(I).

[21] 15 U.S.C. 78q-1(b)(3)(F).

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at www.sec.gov/regulatory-actions/how-to-submit-comments. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the SEC's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

FICC reserves the right not to respond to any comments received.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

(a) The proposed rule change is to take effect immediately upon filing pursuant to Section 19(b)(3)(A) of the Act[22] and Rule 19b-4(f)(4)[23] thereunder.

(b) The proposed rule changes effect a change in an existing FICC service that (i) would not adversely affect the safeguarding of securities or funds in the custody or control of FICC or for which it is responsible and (ii) would not significantly affect the respective rights or obligations of FICC or persons using FICC's services.[24]

As noted above, the proposed changes would enhance the clarity, consistency and accuracy of the relevant QRM Methodology Documents by (x) replacing references to specific benchmarks with a more general description and (y) making corrections, clarifications, and technical changes. Therefore, these proposed changes would not adversely affect the safeguarding of securities or funds in the custody or control of FICC or for which it is responsible.

Also, as noted above, the proposed changes would provide FICC with more flexibility in updating the benchmarks. A benchmark change generally only occurs when the current benchmark becomes unavailable. A benchmark can become unavailable either because it was discontinued by the provider (typically due to low market volume) or if the provider decides to exit the business. In either case, FICC does not believe there would be significant impact on

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22 15 U.S.C. 78s(b)(3)(A).

23 17 CFR 240.19b-4(f)(4).

24 17 CFR 240.19b-4(f)(4)(i).

FICC or its members. This is because if a benchmark is discontinued by the provider due to low market volume, then there should also be limited position exposure to FICC and its members. If the benchmark becomes unavailable because the provider exited the business altogether, it would be replaced with a comparable benchmark. Accordingly, these proposed changes would not significantly affect the rights or obligations of FICC or its participants, consistent with Rule 19b-4(f)(4)(i).[25]

(c) Not applicable.

(d) Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notice Filed Pursuant to Section 806(e) of the Payment, Clearing, and Settlement Supervision Act of 2010

Not applicable.

11. Exhibits

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3a – FICC Impact Study. ***Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 3a pursuant to 17 CFR 240.24b-2 being requested.***

Exhibit 3b – Schedule of MBSD QRM Methodology Document Section References. ***Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 3b pursuant to 17 CFR 240.24b-2 being requested.***

Exhibit 4 – Not applicable.

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25 17 CFR 240.19b-4(f)(4)(i).

Exhibit 5 – Proposed changes to the QRM Methodology Documents. ***Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 5 pursuant to 17 CFR 240.24b-2 being requested.***

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_________]; File No. SR-FICC-2024-001)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Methodology Documents

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on January __, 2024, Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. FICC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act[3] and Rule 19b-4(f)(4) thereunder.[4] The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

FICC is proposing to amend the MBSD Methodology and Model Operations Document – MBSD Quantitative Risk Model ("MBSD QRM Methodology Document"),[5]

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 15 U.S.C. 78s(b)(3)(A).

4 17 CFR 240.19b-4(f)(4).

5 The MBSD QRM Methodology was filed as a confidential exhibit in the rule filing and advance notice for MBSD sensitivity VaR. See Securities Exchange Act Release Nos. 79868 (Jan. 24, 2017), 82 FR 8780 (Jan. 30, 2017) (SR-FICC-2016-007) and 79843 (Jan. 19, 2017), 82 FR 8555 (Jan. 26, 2017) (SR-FICC-2016-801) (collectively, "MBSD Margin Proxy Approval Order"). The MBSD QRM Methodology has been amended. See Securities Exchange Act Release

in order to remove references to specific benchmarks used to calculate the minimum margin amount ("Minimum Margin Amount")[6] and the alternative volatility calculation

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Nos. 85944 (May 24, 2019), 84 FR 25315 (May 31, 2019) (SR-FICC-2019-001), 90182 (Oct. 14, 2020), 85 FR 66630 (Oct. 20, 2020) (SR-FICC-2020-009), 92303 (Jun. 30, 2021), 86 FR 35854 (Jul. 7, 2021) (SR-FICC-2020-017) ("MBSD Minimum Margin Amount Approval Order"), 95070 (Jun. 8, 2022), 87 FR 36014 (Jun. 14, 2022) (SR-FICC-2022-002), and 97342 (Apr. 21, 2023), 88 FR 25721 (Apr. 27, 2023) (SR-FICC-2023-003).

6 FICC has adopted a minimum margin amount into its MBSD margin methodology. The Minimum Margin Amount uses a dynamic haircut method based on observed to-be-announced ("TBA") securities price moves and serves as a minimum MBSD value-at-risk ("VaR") charge ("VaR Charge") for net unsettled positions, calculated using the historical market price changes of certain benchmark TBA securities. See MBSD Minimum Margin Amount Approval Order, supra note 5.

As defined in MBSD Rule 1 (Definitions), the term "TBA" means a contract for the purchase or sale of mortgage-backed security to be delivered at an agreed-upon future date because as of the transaction date, the seller has not yet identified certain terms of the contract, such as the pool number and number of pools, to the buyer. Infra note 9.

The term "VaR Charge" is defined in MBSD Rule 1 and means, with respect to each margin portfolio, a calculation of the volatility of specified net unsettled positions of a Clearing Member, as of the time of such calculation (with respect to the specified net unsettled positions as of the time of such calculation). Such volatility calculations shall be made in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Act. Such calculation shall be made utilizing such assumptions (including confidence levels) and based on such historical data as FICC deems reasonable, and shall cover such range of historical volatility as FICC from time to time deems appropriate. To the extent that the primary source of such historical data becomes unavailable for an extended period of time, FICC shall utilize the Margin Proxy as an alternative volatility calculation. In its assessment of volatility, FICC shall calculate an additional bid-ask spread risk charge measured by multiplying the gross market value of each Net Unsettled Position by a basis point charge, where the applicable basis point charge shall be reviewed at least annually. If the volatility calculation is lower than the VaR Floor then the VaR Floor will be utilized as such Clearing Member's VaR Charge. Infra note 9.

("Margin Proxy")[7] at MBSD. FICC would replace the references to specific benchmarks with a more general description. FICC is also proposing to make certain corrections and technical changes to the GSD Methodology Document – GSD Initial Market Risk Margin Model[8] ("GSD QRM Methodology Document," and together with the MBSD QRM Methodology Document, the "QRM Methodology Documents") and a clarification to the MBSD QRM Methodology Document, as described in greater detail below.[9]

FICC is requesting confidential treatment of the QRM Methodology Documents and has filed them separately with the Secretary of the Commission.[10]

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7 FICC has adopted procedures that would govern in the event that the vendor fails to provide risk analytics data used by FICC to calculate the MBSD VaR Charge. These procedures include the application of the Margin Proxy, which would be applied as an alternative volatility calculation for the MBSD VaR Charge (subject to the VaR Floor, as defined in MBSD Rule 1, infra note 9) if FICC determines that the data disruption would extend beyond five (5) business days. See MBSD Margin Proxy Approval Order, supra note 5.

8 The GSD QRM Methodology Document was filed as a confidential exhibit in the rule filing and advance notice for GSD sensitivity VaR. See Securities Exchange Act Release Nos. 83362 (Jun. 1, 2018), 83 FR 26514 (Jun. 7, 2018) (SR-FICC-2018-001) and 83223 (May 11, 2018), 83 FR 23020 (May 17, 2018) (SR-FICC-2018-801). The GSD QRM Methodology has been subsequently amended. See Securities Exchange Act Release Nos. 85944 (May 24, 2019), 84 FR 25315 (May 31, 2019) (SR-FICC-2019-001), 90182 (Oct. 14, 2020), 85 FR 66630 (Oct. 20, 2020) (SR-FICC-2020-009), 93234 (Oct. 1, 2021), 86 FR 55891 (Oct. 7, 2021) (SR-FICC-2021-007), 95605 (Aug. 25, 2022), 87 FR 53522 (Aug. 31, 2022) (SR-FICC-2022-005), and 97342 (Apr. 21, 2023), 88 FR 25721 (Apr. 27, 2023) (SR-FICC-2023-003).

9 Capitalized terms used herein and not defined shall have the meaning assigned to such terms in the FICC's Government Securities Division ("GSD") Rulebook ("GSD Rules") and FICC's Mortgage-Backed Securities Division ("MBSD") Clearing Rules ("MBSD Rules", and together with the GSD Rules, the "Rules"), available at www.dtcc.com/legal/rules-and-procedures.aspx.

10 17 CFR 240.24b-2.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this rule filing is to amend the QRM Methodology Documents to remove references to specific benchmarks used for the Minimum Margin Amount and Margin Proxy at MBSD. FICC would replace these references to specific benchmarks with a more general description. FICC is also proposing to make certain corrections and technical changes to the GSD QRM Methodology Document and a clarification to the MBSD QRM Methodology Document.

Replacing References to Specific Benchmarks for Minimum Margin Amount and Margin Proxy of MBSD With a More General Description in the MBSD QRM Methodology Document

The MBSD QRM Methodology Document provides the methodology by which FICC calculates the MBSD VaR Charge. The MBSD QRM Methodology Document specifies model inputs, parameters and assumptions, among other information. With respect to Minimum Margin Amount and Margin Proxy, the MBSD QRM Methodology Document refers to the specific benchmarks that are in use. FICC is proposing to remove the specific benchmark references and replace them with a more general description in order to provide FICC with more flexibility in updating the benchmarks. This is because FICC has observed that vendors may from time to time modify, suspend or discontinue benchmarks.[11] Such occurrences do not happen frequently, however, because the references to the specific benchmarks are currently codified in the MBSD QRM Methodology Document, any changes or updates to the benchmarks would require a proposed rule change to be filed with the Commission. In order to provide FICC with more flexibility in updating the benchmarks to timely reflect changes and/or updates, FICC is proposing to replace references to specific benchmarks in the MBSD QRM Methodology Document with a more general description.

Specifically, with respect to the Minimum Margin Amount calculation, FICC is proposing to remove the specific references to default benchmark TBA programs from the MBSD QRM Methodology and replacing it with language that FICC would designate daily benchmark TBA for each of the CONV30, CONV15, GNMA30, and GNMA15 programs based on the TBA with the largest gross settlement amount in the program. Similarly, with respect to the Margin Proxy calculation, FICC is proposing to remove the specific references to default benchmark TBAs as well as the corresponding reference current coupons and replacing them with language that FICC would designate daily benchmark TBAs for each of the CONV30, CONV15, GNMA30, and GNMA15

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[11] For example, one of the benchmarks specified in the MBSD QRM Methodology Document for the GNMA program is GNMA I (i.e., MTGEGNSF Index from Bloomberg for GNMA I 30-Year current coupons), which is used to calculate the Margin Proxy; however, FICC has recently learned that GNMA I is no longer available due to diminishing trading volume. Accordingly, following the implementation of these proposed changes, FICC plans to replace GNMA I with GNMA II (i.e., MTGEG2SF Index from Bloomberg for GNMA II 30-Year current coupons) in the calculation of Margin Proxy.

programs based on the TBA coupon rate closest to or identical with the then current coupon rate. By replacing references to specific benchmarks in the MBSD QRM Methodology Document with a more general description, FICC would no longer need to submit subsequent rule filings to make updates or changes to these benchmarks unless such changes require an advance notice.[12] Nonetheless, as part of the key model construct, benchmarks are reviewed at least annually through FICC's model validation process, and any changes to the benchmarks would continue to be subject to DTCC's internal model governance process as described in the Clearing Agency Model Risk Management Framework.[13]

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12 Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Rule 19b-4(n)(1)(i) under the Act, if a change materially affects the nature or level of risks presented by FICC, then FICC is required to file an advance notice filing. 12 U.S.C. 5465(e)(1) and 17 CFR 240.19b-4(n)(1)(i).

13 The Clearing Agency Model Risk Management Framework ("Framework") sets forth the model risk management practices that FICC and its affiliates The Depository Trust Company ("DTC") and National Securities Clearing Corporation ("NSCC," and together with FICC and DTC, the "Clearing Agencies") follow to identify, measure, monitor, and manage the risks associated with the design, development, implementation, use, and validation of quantitative models. The Framework is filed as a rule of the Clearing Agencies. See Securities Exchange Act Release Nos. 81485 (Aug. 25, 2017), 82 FR 41433 (Aug. 31, 2017) (SR-DTC-2017-008; SR-FICC-2017-014; SR-NSCC-2017-008), 88911 (May 20, 2020), 85 FR 31828 (May 27, 2020) (SR-DTC-2020-008; SR-FICC-2020-004; SR-NSCC-2020-008), 92380 (Jul. 13, 2021), 86 FR 38140 (Jul. 19, 2021) (SR-FICC-2021-006), 92381 (Jul. 13, 2021), 86 FR 38163 (Jul. 19, 2021) (SR-NSCC-2021-008), 92379 (Jul. 13, 2021), 86 FR 38143 (Jul. 19, 2021) (SR-DTC-2021-013), 94271 (Feb. 17, 2022), 87 FR 10411 (Feb. 24, 2022) (SR-FICC-2022-001), 94272 (Feb. 17, 2022) 87 FR 10419 (Feb. 24, 2022) (SR- NSCC-2022-001), 94273 (Feb. 17, 2022), 87 FR 10395 (Feb. 24, 2022) (SR-DTC-2022-001), 97890 (Jul. 13, 2023), 88 FR 46287 (Jul. 19, 2023) (SR-FICC-2023-008), 97892 (Jul. 13, 2023), 88 FR 46232 (Jul. 19, 2023) (SR-NSCC-2023-006), and 97891 (Jul. 13, 2023), 88 FR 46336 (Jul. 19, 2023) (SR-DTC-2023-006).

Under the proposal, FICC would delete references to specific benchmarks from the Minimum Margin Amount and the Margin Proxy sections of the MBSD QRM Methodology Document. With respect to the calculation of the Minimum Margin Amount, the MBSD QRM Methodology Document would provide that the risk factors are calculated based on the applicable benchmark TBA for each program,[14] and each day, the benchmark TBA is designated by FICC based on the TBA with the largest gross settlement amount in the program. Similarly, the MBSD QRM Methodology Document would also provide that in calculating the Margin Proxy, the risk factors are calculated based on the benchmark TBA for each program,[15] and each day, the benchmark TBA is designated by FICC based on the TBA coupon rate closest to or identical with the then current coupon rate.

Certain Corrections and Technical Changes to the GSD QRM Methodology Document and a Clarification to the MBSD QRM Methodology Document

FICC is proposing to make certain corrections and technical changes to the GSD QRM Methodology Document and a clarification to the MBSD QRM Methodology Document, as described in detail below.

(1) GSD QRM Methodology Document

FICC is proposing to make certain corrections and technical changes to the GSD QRM Methodology Document. Specifically, FICC would correct two typographical errors – one in the description of market risks associated with products cleared by GSD,

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[14] In calculating the Minimum Margin Amount and the Margin Proxy, FICC partitions each MBSD member portfolio into four programs – CONV30, GNMA30, CONV15, and GNMA15.

[15] Id.

and the other in the description of key assumptions for Blackout Period Exposure. FICC would also correct two grammatical errors - one in the description of market risks associated with products cleared by GSD and the other in the description of certain factors for VaR determination.

Appendix 4 (Related Methodology for MBSD Sensitivity VaR) to the GSD QRM Methodology Document currently includes certain sections from the MBSD QRM Methodology Document with slightly different numbering sequences. In order to eliminate duplicity and prevent potential inconsistency with the MBSD QRM Methodology Document, FICC is proposing certain technical changes to remove Appendix 4 (Related Methodology for MBSD Sensitivity VaR) from the GSD QRM Methodology Document and update references thereto to directly refer to the relevant section name(s) in the MBSD QRM Methodology Document. FICC is also proposing an update to the reference of the MBSD QRM Methodology Document in the Bibliography section by removing the date from the title of the document. Removing the date from the title of this document in the Bibliography section of the MBSD QRM Methodology Document would help this reference from becoming stale or outdated as the MBSD QRM Methodology gets updated from time to time.

(2) <u>MBSD QRM Methodology Document</u>

FICC is proposing to make a clarification to the MBSD QRM Methodology Document. Specifically, in the section of the MBSD QRM Methodology Document that describes the calculation of Margin Proxy, FICC would add a sentence that describes FICC's current practice when the current coupon rate used to determine the benchmark is missing, unavailable, or deemed unreliable. Specifically, the additional sentence would provide that if the current coupon rate is missing, unavailable, or deemed unreliable for a particular program, then FICC would use the latest available coupon rate to determine the benchmark TBA or obtain the current coupon rate from an alternative source.

Impact Study

FICC has conducted an impact study for the period from June 2022 to May 2023 ("Impact Study") assessing the change with respect to the Margin Proxy.[16] The result of the Impact Study indicates that, if FICC had replaced GNMA I (i.e., MTGEGNSF Index from Bloomberg for GNMA I 30-Year current coupons) with GNMA II (i.e., MTGEG2SF Index from Bloomberg for GNMA II 30-Year current coupons) when calculating the Margin Proxy during the Impact Study period, the MBSD backtesting coverage ratio with respect to the Margin Proxy would largely remain unchanged, with a 0.1% decrease in coverage ratio.

Specifically, if FICC had replaced GNMA I with GNMA II when calculating the MBSD Margin Proxy during the Impact Study period, the average daily aggregate Margin Proxy would have decreased \$16.3 million (or approximately 0.29% of the average daily aggregate Margin Proxy). The average daily decrease in Margin Proxy per portfolio would have been approximately \$213,000 (or approximately 0.29% of the average daily Margin Proxy per portfolio), with the largest daily dollar decrease of

16 There is no anticipated impact from this proposal with respect to the Minimum Margin Amount from Jun. 2022 to May 2023. This is because under the proposal, with respect to the Minimum Margin Amount, GNMA I TBAs would be added as a potential benchmark TBA in addition to the currently existing default benchmark TBAs, i.e., GNMA II TBAs; however, since 2022, GNMA II TBAs have consistently exceeded GNMA I TBAs in terms of position exposures at MBSD, therefore, based on the gross settlement amounts, irrespective of the addition of GNMA I TBAs as a potential benchmark TBA, the benchmark TBA designated by FICC would still have been GNMA II TBAs. Therefore, there is no anticipated impact from this proposal on the Minimum Margin Amount from Jun. 2022 to May 2023.

approximately $4.1 million (0.59% of the Margin Proxy for that day) and the largest percentage decrease of 2.07% (or approximately $1,900 decrease in Margin Proxy).

2. Statutory Basis

FICC believes this proposal is consistent with the requirements of the Act, and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, FICC believes that the proposed changes to the QRM Methodology Documents described above are consistent with Section 17A(b)(3)(F) of the Act, for the reasons described below.[17]

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.[18]

FICC believes that amending the MBSD QRM Methodology Document to remove references to specific benchmarks used for the calculation of Minimum Margin Amount and Margin Proxy and replace them with a more general description as described above would enhance clarity and consistency for FICC. Specifically, the proposed changes would help ensure that the MBSD QRM Methodology Document (which has been filed confidentially) remains aligned with the slate of available benchmarks as it evolves over time. FICC believes that enhancing clarity and consistency with respect to changes to the aforementioned benchmarks would help ensure that FICC calculates and collects adequate margin from its Clearing Members. Collecting adequate margin from its Clearing Members would help FICC mitigate potential losses associated with

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17 15 U.S.C. 78q-1(b)(3)(F).

18 Id.

liquidating a Clearing Member's portfolio in the event of Clearing Member default. Therefore, in the event of Clearing Member default, the proposed changes would help to ensure that FICC's operations would not be disrupted and non-defaulting Clearing Members would not be exposed to losses they cannot anticipate or control. In this way, the proposed changes to the aforementioned benchmarks would help assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[19]

FICC believes that the proposed changes, which constitute certain corrections and technical changes to the GSD QRM Methodology Document and a clarification to the MBSD QRM Methodology Document, would enhance the clarity and accuracy of the QRM Methodology Documents for FICC. The QRM Methodology Documents are used by FICC risk management personnel regarding the calculation of margin requirements. Having clear and accurate QRM Methodology Documents would help facilitate the accurate and smooth functioning of the margining process at FICC. The changes referenced in this paragraph would promote such clarity and accuracy. This would in turn allow FICC risk management to charge members an appropriate level of margin. As such, FICC believes that enhancing the clarity and accuracy of the QRM Methodology Documents would assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[20]

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19 Id.

20 Id.

(B) Clearing Agency’s Statement on Burden on Competition

FICC believes that the proposed changes to amend the MBSD QRM Methodology Document to remove references to specific benchmarks used for the calculation of Minimum Margin Amount and Margin Proxy and replace them with a more general description as described above could have an impact on competition. Specifically, FICC believes that the proposed changes could burden competition because changes to the benchmarks could potentially result in larger Required Fund Deposit amounts for some members than the amounts currently calculated. This is because the proposed changes would provide FICC the flexibility to timely update benchmarks without a rule filing, which in turn could lead to either higher or lower haircut rates being used when calculating the Minimum Margin Amount and/or Margin Proxy. Using higher haircut rates when calculating the Minimum Margin Amount and/or Margin Proxy could result in larger Required Fund Deposit amounts for some members than the amounts currently calculated.

When the proposal results in a larger Required Fund Deposit for members, the proposed changes could burden competition for members that have lower operating margin or higher cost of capital compared to other members. Whether such burden on competition would be significant would depend on each member’s financial status and the specific risks presented by each member’s portfolio(s). Regardless of whether the burden on competition would be significant, FICC believes that any burden on competition imposed by the proposed changes would be both necessary and appropriate in furtherance of FICC's efforts to mitigate risks and meet the requirements of the Act,[21] as described in this filing and further below.

FICC believes the above-described burden on competition that may be created by the proposed changes to amend the MBSD QRM Methodology Document to remove references to specific benchmarks used in the calculation of the Minimum Margin Amount and Margin Proxy and replace them with a more general description would be necessary in furtherance of the Act.[22] As stated above, these proposed changes would provide FICC with more flexibility in updating these benchmarks without a rule filing. As such, the proposed changes would enhance clarity and consistency for FICC by helping to ensure that the MBSD QRM Methodology Document (which has been filed confidentially) stays aligned with the slate of available benchmarks as it evolves over time. FICC believes that enhancing clarity and consistency for FICC with respect to changes to the aforementioned benchmarks would help ensure that FICC calculates and collects adequate margin from its Clearing Members and would thereby assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[23]

FICC also believes that the above-described burden on competition that could be created by the proposed changes to amend the MBSD QRM Methodology Document to remove references to specific benchmarks used for the calculation of Minimum Margin Amount and Margin Proxy and replace them with a more general description would be

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21 15 U.S.C. 78q-1(b)(3)(I).

22 Id.

23 15 U.S.C. 78q-1(b)(3)(F).

appropriate in furtherance of the Act.[24] FICC believes these proposed changes would be appropriate in furtherance of the Act because they have been designed to assure the safeguard of securities and funds which are in the custody or control of FICC or for which it is responsible. The proposal achieves this purpose by providing FICC additional flexibility when updating aforementioned benchmarks, thus ensuring that the MBSD QRM Methodology Document (which has been filed confidentially) remains aligned with the slate of available benchmarks as it evolves over time. Having a clear MBSD QRM Methodology Document would help facilitate the accurate and smooth functioning of the margining process at FICC and thereby assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[25]

FICC does not believe the proposed corrections and technical changes to the GSD QRM Methodology Document and the proposed clarification to the MBSD QRM Methodology Document described above would have any impact on competition. These proposed changes would enhance QRM Methodology Documents by providing additional clarity and accuracy. The proposed changes referenced above would not advantage or disadvantage any particular member of FICC or unfairly inhibit access to FICC's services. FICC therefore does not believe these proposed changes would have any impact, or impose any burden, on competition.

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[24] 15 U.S.C. 78q-1(b)(3)(I).

[25] 15 U.S.C. 78q-1(b)(3)(F).

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

FICC has not received or solicited any written comments relating to this proposal. If any additional written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at www.sec.gov/regulatory-actions/how-to-submit-comments. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the SEC's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

FICC reserves the right not to respond to any comments received.

III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)[26] of the Act and paragraph (f)[27] of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily

[26] 15 U.S.C. 78s(b)(3)(A).

[27] 17 CFR 240.19b-4(f).

suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2024-001 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-FICC-2024-001. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC's website (http://dtcc.com/legal/sec-rule-filings.aspx). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-FICC-2024-001 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[28]

Secretary

[28] 17 CFR 200.30-3(a)(12).

EXHIBIT 3a

The information contained in this Exhibit 3a is subject to exemption from mandatory disclosure under Exemptions #4 and #8 of the Freedom of Information Act because the information concerns (i) trade secrets and commercial information that is privileged or confidential and (ii) the supervision of Fixed Income Clearing Corporation (FICC), a financial institution. This Exhibit 3a contains electronic files, each embedded in a one-page document for filing efficiency, as listed below. The information contained in the embedded files is not intended for public disclosure. Accordingly, this Exhibit 3a has been redacted and confidential treatment requested pursuant to 17 CFR 240.24b-2. An unredacted version was filed separately and confidentially with the Securities and Exchange Commission. Notwithstanding the request for confidential treatment, FICC believes the substance of this Exhibit 3a is clearly and adequately described in the accompanying Exhibit 1A and Form 19b-4 narrative to the proposed rule change filing, thus allowing for meaningful public comment.

<u>Embedded Files:</u>

- FICC Impact Study; spreadsheet file; FICC Impact Analysis.

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EXHIBIT 3b

The information contained in this Exhibit 3b is subject to exemption from mandatory disclosure under Exemptions #4 and #8 of the Freedom of Information Act because the information concerns (i) trade secrets and commercial information that is privileged or confidential and (ii) the supervision of Fixed Income Clearing Corporation (FICC), a financial institution. This Exhibit 3b contains electronic files, each embedded in a one-page document for filing efficiency, as listed below. The information contained in the embedded files is not intended for public disclosure. Accordingly, this Exhibit 3b has been redacted and confidential treatment requested pursuant to 17 CFR 240.24b-2. An unredacted version was filed separately and confidentially with the Securities and Exchange Commission. Notwithstanding the request for confidential treatment, FICC believes the substance of this Exhibit 3b is clearly and adequately described in the accompanying Exhibit 1A and Form 19b-4 narrative to the proposed rule change filing, thus allowing for meaningful public comment.

Embedded Files:

- Schedule of MBSD QRM Methodology Document Section References; spreadsheet file; a list of those sections of the MBSD QRM Methodology Document that are referenced in the GSD QRM Methodology Document.

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EXHIBIT 5

The information contained in this Exhibit 5 is subject to exemption from mandatory disclosure under Exemptions #4 and #8 of the Freedom of Information Act because the information concerns (i) trade secrets and commercial information that is privileged or confidential and (ii) the supervision of Fixed Income Clearing Corporation (FICC), a financial institution. This Exhibit 5 contains electronic files, each embedded in a one-page document for filing efficiency, as listed below. The information contained in the embedded files is not intended for public disclosure. Accordingly, this Exhibit 5 has been redacted and confidential treatment requested pursuant to 17 CFR 240.24b-2. An unredacted version was filed separately and confidentially with the Securities and Exchange Commission. Notwithstanding the request for confidential treatment, FICC believes the substance of this Exhibit 5 is clearly and adequately described in the accompanying Exhibit 1A and Form 19b-4 narrative to the proposed rule change filing, thus allowing for meaningful public comment.

Embedded Files:

- QRM Methodology Documents; 16 pages; proposed changes to Methodology Document – GSD Initial Market Risk Margin Model and proposed changes to Methodology and Model Operations Document – MBSD Quantitative Risk Model.

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