Important Notice
Fixed Income Clearing Corporation - GOV

GOV #:	GOV1244-22
Date:	April 11, 2022
To:	Government Securities Division (“GSD”) Netting Members
Category:	Service Updates
Subject:	GSD Intraday Supplemental Fund Deposit Parameter Change

Update:

Starting April 25, 2022, FICC GSD will assess an Intraday Supplement Fund Deposit on a Netting Member if (i) a change in the Netting Member’s Intraday VaR Charge equals or exceeds $1 million when compared to its most recent VaR Charge calculation, (ii) the Netting Member’s Intraday VaR Charge equals or exceeds 100% of its most recent VaR Charge calculation, and (iii) the Netting Member’s backtesting coverage is below 100%. Additionally, Netting Members who breached the thresholds for (i) and (ii) and have fewer than 100 trading days in a rolling 12-month period will be assessed an Intraday Supplemental Fund Deposit regardless of their backtesting coverage.

Background:

FICC GSD’s Clearing Fund methodology is designed with a 99% confidence interval. This means that the Total Required Fund Deposit (“TRFD”) collected by GSD is sufficient to cover losses over a 3-day margin period of risk in 99% of observed market scenarios. FICC performs regular backtesting to ensure that the FICC GSD Clearing Fund model maintains this coverage ratio at the Netting Member level. Netting Members that fall below this target may be assessed a Backtesting Charge (see GSD Rule 4, Section 1b(a)(iv)) as part of their TRFD to help ensure future coverage compliance. In addition to the standard calculation and collection of TRFD at the start of day (SOD) and noon for GSD, FICC performs intraday monitoring on an hourly basis and may take additional intraday margin in the form of an Intraday Supplemental Fund Deposit (see GSD Rule 4, Section 2a) if the Netting Member triggered established thresholds. Currently FICC assesses an Intraday Supplemental Fund Deposit when (i) a change in a Netting Member’s Intraday VaR Charge equals or exceeds $1 million when compared to its most recent VaR Charge calculation (“dollar threshold”), (ii) a Netting Member’s Intraday VaR Charge equals or exceeds 100% of its most recent VaR Charge calculation (“percentage threshold”), and (iii) if a Netting Member’s backtesting coverage is below 99% (“backtesting coverage threshold”).

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Due to the recent market volatility, FICC GSD has experienced a rising number of backtesting deficiencies across the membership. FICC believes these backtesting deficiencies could have been prevented had FICC taken an intraday margin collection notwithstanding the 99% backtesting coverage threshold. Accordingly, FICC will be raising the backtesting coverage threshold for intraday margin calls to 100% in order to reduce the occurrence of backtesting deficiencies. FICC will also be applying a trading day threshold for intraday margin collection. Netting Members who have less than 100 trading days in a rolling 12-month period, and who breach the threshold for (i) and (ii), will be assessed a Intraday Supplemental Fund Deposit, regardless of their backtesting coverage. This is because for a Netting Member with fewer than 100 trading days, even a single backtesting deficiency would result in the Netting Member having a below-99% backtesting coverage.

FICC GSD reviews its intraday margin collection thresholds on an annual basis to ensure that they provide adequate coverage but are also not overly cumbersome to its members. Any changes to the thresholds will be communicated to Members promptly.

Please direct any questions to FICC Market Risk at 1-212-855-2020 or FICCProductRisk@dtcc.com