



## Important Notice

### Fixed Income Clearing Corporation – MBSD

<b>MBS #:</b>	MBS1105-22
<b>Date:</b>	June 10, 2022
<b>To:</b>	Mortgage-Backed Securities Division Clearing Members
<b>Category:</b>	Service Updates
<b>Subject:</b>	Moving MBSD Deterministic Risk Component to Cash Only Settlement; Intraday Mark-to-Market Charge and Intraday VaR Charge

#### Update:

On June 8<sup>th</sup>, 2022, the U.S. Securities and Exchange Commission issued an order approving proposed rule change SR-FICC-2022-002 (the “Rule Filing”), which was filed by Fixed Income Clearing Corporation (“FICC”) pursuant to Section 19(b)(2) of the Securities Exchange Act of 1934, as amended.

The purpose of the Rule Filing was to amend the Mortgage-Backed Securities Division Clearing Rules (“Clearing Rules”) to move certain Deterministic Risk Component items (Mark-to-Market items, cash obligation items and accrued principal and interest) from the Required Fund Deposit calculation to Cash Settlement, revise certain thresholds in the Intraday Mark-to-Market Charge, establish a new Intraday VaR Charge and make certain other clarifications to the Clearing Rules.

The full text of the Rule Filing may be obtained by visiting The Depository Trust & Clearing Corporation’s website at [www.dtcc.com/legal/sec-rule-filings.aspx](http://www.dtcc.com/legal/sec-rule-filings.aspx).

Please be advised that FICC will implement the Rule Filing on **June 27, 2022**.

#### Intraday Mark-to-Market Charge

Pursuant to the Clearing Rules, the Intraday Mark-to-Market Charge is an additional charge collected from a Clearing Member to mitigate the Corporation’s exposures that may arise from intraday changes in the size, composition, and constituent security prices of such Clearing Member’s portfolio.

During normal market conditions, the Intraday Mark-to-Market Charge applies to Clearing Members that experience an intraday increase in Mark-to-Market exposure that exceeds (i) a dollar threshold of \$1,000,000, (ii) a percentage threshold of 30% as compared to the daily VaR Charge, and that have 12-month backtesting coverage below a target of 99%. Due to recent market volatility, FICC will be raising the backtesting coverage threshold for intraday margin calls to 100% in order to prevent backtesting deficiencies. FICC will also be applying a trading day threshold for intraday margin collection. Clearing 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 an Intraday Mark-to-Market Charge, regardless of their backtesting coverage. This is because for a Clearing Member with fewer than 100

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trading days, even a single backtesting deficiency would result in the Clearing Member having a below 99% backtesting coverage.

### **Intraday VaR Charge**

Separately, FICC will be making the application of the Intraday VaR Charge more automatic and transparent on all dates by establishing a formal Intraday VaR Charge. This charge will help the Corporation to mitigate the Corporation's exposure that may arise from significant intraday changes to the size and composition of Clearing Members' portfolios that could cause the amount collected as the VaR Charge at the start of that Business Day to no longer be sufficient to mitigate the volatility risks that such positions present to FICC. The Intraday VaR Charge applies to Clearing Members that experience an intraday increase in VaR that exceeds a dollar threshold of \$1,000,000, and a percentage threshold greater than or equal to 100% of its most recent VaR Charge collection. Regardless of the percentage increase, a Clearing Member whose Intraday VaR increase exceeds \$80,000,000 from its most recent VaR Charge collection, will be subject to an Intraday VaR Charge.

Subject to the Clearing Rules, FICC may adjust the thresholds used for the Intraday Mark-to-Market Charge and the Intraday VaR Charge from time to time as appropriate in order to continue to reflect thresholds that mitigate the volatility risks that such positions present to FICC. FICC 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 Clearing Members. Any changes to the thresholds will be communicated to Clearing Members promptly.

Please direct any questions to FICC Market Risk at 1-212-855-2020 or [FICCProductRisk@dtcc.com](mailto:FICCProductRisk@dtcc.com)