



Important Notice

Fixed Income Clearing Corporation - GOV

GOV #:	GOV1573-23
Date:	November 1, 2023
To:	Government Securities Division Members
Category:	Service Update
Subject:	Reporting Requirement for GSD Sponsoring Members & Enhanced Monitoring by FICC

Sponsoring Member Reporting Requirements

FICC is providing this notice to remind all Sponsoring Members of FICC's Government Securities Division ("GSD") of their ongoing membership requirement to notify FICC of material events related to their Sponsored Members.

Per GSD Rule 3A, Section 2(g), with respect to any of its Sponsored Members, a Sponsoring Member must submit to FICC written notice (i) within 1 business day of becoming aware that a Sponsored Member is no longer in compliance with the requirements of subsection (a) of Section 3 of Rule 3A, and (ii) at least 90 calendar days prior to the effective date of any Reportable Event applicable to a Sponsored Member, unless the Sponsoring Member demonstrates that it could not have reasonably done so, in which case such notice shall be provided as soon as possible.

A "Reportable Event", for purposes of the reporting requirements in GSD Rule 3A, includes an event that would effect a change in control of a Sponsored Member or could have a substantial impact on such Member's business and/or financial condition, including, but not limited to: (a) material organizational changes including mergers, acquisitions, changes in corporate form, name changes, changes in the ownership of a Sponsored Member or its Affiliates, and material changes in management, (b) material changes in business lines, including new business lines undertaken, and (c) status as a defendant in litigation which could reasonably impact the Sponsored Member's financial condition or ability to conduct business.

For the avoidance of doubt, this rule requires Sponsoring Members to report to FICC any significant change or deterioration in the financial or operational condition of any of its Sponsored Members, even if that Sponsored Member still meets the minimum requirements of membership.

This ongoing membership reporting requirement was revised and clarified in the GSD Rules in February 2023 (see <https://www.dtcc.com/-/media/Files/Downloads/legal/rule-filings/2023/FICC/SR-FICC-2023-002-Approval-Notice.pdf>).

Any Sponsoring Member who fails to adhere to its ongoing membership requirements and does not provide timely notice of these matters to FICC may be subject to disciplinary action, including a fine pursuant to the Fine Schedule of the GSD Rules.

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The ongoing membership requirements of Sponsoring Members also include reporting requirements related to their membership as Netting Members. Please note Netting Members are required pursuant to GSD Rule 3, Section 7 to submit to FICC written notice of any Reportable Event at least 90 calendar days prior to the effective date of such Reportable Event unless the Netting Member demonstrates that it could not have reasonably done so, and provided notice, both orally and in writing, to FICC as soon as possible.

Enhanced Monitoring of Sponsored Members by FICC

FICC's Counterparty Credit Risk ("CCR") team monitors GSD Members' credit risk profile through multiple processes, including annual and ad hoc due diligence requests which are a key process for gathering important information on each Member. CCR also utilizes these Member due diligence processes to identify and monitor the risks that participants and their client relationships may pose to FICC, in compliance with Rule 17Ad-22(e)(19) under the Securities Exchange Act of 1934, as amended. One goal of these review processes is for FICC to understand the material dependencies and relationships between GSD Members and the clients that rely on them for the clearance and settlement of their transactions, as well as the various risk controls and mitigants that GSD Members employ to manage their risks with respect to such relationships.

In support of these risk management goals, CCR is enhancing its due diligence processes to require that Sponsoring Members provide information regarding the risk profile of their Sponsored Members that are Unregistered Investment Pools ("UIPs").

- As part of CCR's annual due diligence process, CCR will request that Sponsoring Members provide additional information related to their onboarding and ongoing surveillance of their Sponsored Members that are UIPs.
- Additionally, FICC will require Sponsoring Members to complete a UIP Sponsored Member Survey for any of its Sponsored Members that are UIPs and conduct sponsored repo activity at FICC that exceeds a threshold set by FICC from time to time. The survey responses will be used by CCR to evaluate the risk profile of the UIP Sponsored Members.

As a reminder, all GSD Members are bound to comply with the GSD Rules, which require, among other things, that such Members submit to FICC all reports and information that FICC deems to be necessary or advisable. This requirement is applicable to GSD Netting Members pursuant to Section 2 of GSD Rule 3, and to GSD Sponsoring Members pursuant to Section 2(d) of GSD Rule 3A. In complying with these requirements, it is critical that GSD Members provide complete, accurate, and timely responses to all FICC due diligence requests, so FICC can appropriately assess the risks presented by the GSD Members, as well as the risks posed to FICC by clients that are serviced by GSD Members, in accordance with FICC's regulatory obligations.

Questions or inquiries regarding this Important Notice should be addressed to your Relationship Manager.