F.A.Q. FICC - Basics

WHAT IS FICC?

Fixed Income Clearing Corporation (FICC) is a registered clearing agency and central counterparty that operates two divisions - Government Securities Division (GSD) is the leading provider of netting, novation, clearing and settlement for the Government securities marketplace, and Mortgage-Backed Securities Division (MBSD) provides the same services for the U.S. mortgage-backed securities market.

FICC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). DTCC is a non-public holding company that owns three registered clearing agencies that have been designated as Systemically Important Financial Market Utilities (SIFMUs), as well as related businesses. In addition to FICC, DTCC also owns The Depository Trust Company (DTC), the world's largest CSD and a registered clearing agency for the settlement of securities transactions for eligible securities and other financial assets, and National Securities Clearing Corporation (NSCC), a registered clearing agency and CCP that provides clearing, netting, settlement, risk management and CCP services for trades involving equities, corporate and municipal debt, exchange-traded funds and unit investment trusts in the U.S. As noted, FICC, DTC and NSCC have all been designated as SIFMUs.

FICC was established in 2003 with the merger of the Government Securities Clearing Corporation (GSCC), which was established in 1986, and the Mortgage-Backed Securities Clearing Corporation (MBSCC), which was founded in 1979.

WHO OWNS FICC, AND HOW IS IT GOVERNED?

Through its holding company structure and governance, FICC is essentially owned and governed by the market participants that it serves. Specifically, the common stock of DTCC, FICC's non-public parent company, is owned by the financial institutions that are participants of its three registered clearing agency subsidiaries.

DTCC's governance arrangements—and those of its clearing agency subsidiaries—are designed to promote the safety and efficiency of its clearing agency subsidiaries, support the stability of the broader financial system and promote the objectives of its participants. DTCC's and FICC's boards of directors are primarily composed of representatives of the clearing agency participants, including buy- and sell-side market participants, as well as representatives from other self-regulatory organizations and independent directors. This governance structure is designed to align incentives between FICC and the industry.

DOES FICC HAVE EXPERIENCE IN TREASURY CLEARING?

The Government Securities Division of FICC and its predecessor the Government Securities Clearing Corporation (GSCC) have been providing clearing, netting and settlement services to the U.S. Treasury market since 1986.

IS FICC A PUBLICLY TRADED FOR-PROFIT CCP LIKE THE DCOS THAT CENTRALLY CLEAR MY DERIVATIVES TRADES?

No. FICC is wholly-owned by DTCC, a non-public holding company, which is owned exclusively by the participants of FICC and its other registered clearing agency subsidiaries.

WHAT DOES IT MEAN THAT FICC IS DESIGNATED AS A "SYSTEMICALLY IMPORTANT FINANCIAL MARKET UTILITY" (SIFMU)?

Essentially, a Systemically Important Financial Market Utility (SIFMU) is a market utility that is so vital to the U.S. financial system that its failure or a disruption to its operations could threaten the stability of the U.S. markets.

FICC was designated a SIFMU in 2012 by the Financial Stability Oversight Council of the US Treasury Department and pursuant to Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). Today, only 8 financial market utilities – including FICC and its affiliates, DTC and NSCC – have been designated SIFMUs.

As a SIFMU and as a SEC covered clearing agency, FICC is required to meet prescribed risk management standards and heightened oversight by the SEC and the Federal Reserve Board, designed to promote robust risk management and safety and soundness, reduce systemic risk, and support the stability of the broader financial system.

IS THERE ROBUST OVERSIGHT OVER CHANGES TO FICC'S RULEBOOK?

Yes. Pursuant to applicable federal securities law regulations, FICC's rules and procedures are publicly available on its website. Proposed changes to those rules must be filed with the SEC in a proposed rule change filing, which is published in the Federal Register for public comment. Proposed rule change filings are also posted to the FICC website. Any proposed changes cannot be made to the rules until the SEC has approved those changes. While some immaterial changes may become effective upon filing, those changes are also subject to both a public comment period and may be reversed upon review by the SEC.

In addition, material changes to FICC's risk management, including changes that do not modify its rules and procedures, are subject to similar filing requirements, including a public comment period, and may not be implemented until regulatory action is taken.

WHAT ARE THE DIFFERENT OPTIONS OR MEMBERSHIP MODELS FOR A FIRM TO PARTICIPATE IN TREASURY CLEARING AT FICC?

FICC offers a variety of different direct and indirect participation offerings for buy-side and sell-side market participants to allow firms to tailor their access to FICC to the manner that best meets their business and regulatory needs.

Please visit USTClearing.com to learn more about the various ways to access FICC as direct participant or as an indirect participant.

WHERE CAN I SEE FICC'S RULES APPLICABLE TO TREASURY CLEARING?

The rulebook of the Government Securities Division of FICC, which clears Treasury transactions, is publicly available on the DTCC.com web site at: https://www.dtcc.com/~/media/Files/Downloads/legal/rules/ficc_gov_rules.pdf

You may also find public disclosures that provide a general description of FICC's business, operations, risk management and other matters on the DTCC.com web site at: https://www.dtcc.com/-/media/Files/Downloads/legal/policy-and-compliance/FICC_Disclosure_Framework.pdf

IS CROSS-MARGINING BETWEEN FICC AND CME AVAILABLE TODAY? ARE ANY ENHANCEMENTS PLANNED FOR THE FUTURE?

Yes, cross-margining as between FICC-cleared cash and repo activity and CME-cleared futures has been available since 2004 for common members of both CCPs (as well as for pairs

of affiliated members). FICC and CME are actively working on enhancements to the existing arrangement and are also committed to expanding the benefits of that cross-margining

arrangement to a broad scope of end-user clients, subject to the required regulatory approvals.

IS CLEARING THROUGH FICC INCONSISTENT WITH MY FIRM'S REQUIREMENT TO SETTLE TRANSACTIONS ON A DELIVERY VERSUS PAYMENT BASIS?

No. All FICC-cleared transactions settle on a delivery-versus-payment basis either over the Fedwire or at FICC's Clearing Bank, The Bank of New York Mellon.

DOES CLEARING MY FIRM'S TREASURY PURCHASE ACTIVITY AT FICC PUT MY FIRM AT GREATER RISK OF BEING SUBJECT TO A "DOUBLE" MARGINING REQUIREMENT OR BEING UNABLE TO SATISFY MY MARGIN OBLIGATIONS AT ANOTHER CCP?

No. There may be instances where firms are acquiring Treasury securities to, for example, post margin pursuant to the uncleared swaps margin rules (the "UMR"). However, unlike derivatives transactions, FICC-cleared Treasury transactions are short-dated and physically-settled. Accordingly, a firm acquiring a U.S. Treasury security for the UMR will do so quickly (typically T+1). Once the firm performs its obligation to deliver the purchase price and receives the security, margin requirements associated with that transaction will be available for return by FICC. Thus, by the time the security is posted to the swap counterparty under the UMR, margin requirements to FICC will no longer apply to the transaction to acquire the Treasury security.

In addition, settlement risk presented by acquiring a Treasury security through clearing at FICC or acquiring such Treasury security on a bilateral un-cleared basis are both dependent on the settlement infrastructure of The Bank of New York Mellon or Fedwire.

WHAT IS THE BACK-UP FOR TREASURY CLEARING IF FICC WERE TO HAVE A DISRUPTION IN ITS OPERATIONS OR FAIL?

FICC maintains plans that address the loss of people, premises and/or technology as additional measures to ensure the continuing operation of critical services, including proactive and reactive measures that help ensure that enterprise and business functions have resilience and recovery capabilities to continue, should a serious event occur.

These business continuity and resiliency plans establish requirements for how DTCC as a whole, including FICC, will effect and maintain controls that address defined threats which, if not otherwise implemented, could result in a high level of risk to the continuity of enterprise operations. Given the nature and breadth of significant business disruptive events, FICC's business continuity and resiliency plans are aligned at the global, regional, site, legal entity, product, business line, and support function levels. In support of FICC's business, DTCC has multiple data centers, including in-region and out-of-region sites, and all critical clearance and settlement transactions utilize private non-Internet networks.

Additionally, FICC maintains a Recovery and Wind-down (R&W) Plan to be used by the Board and management in the event FICC encounters scenarios that could potentially prevent it from being able to provide its critical services as a going concern. The R&W Plan identifies FICC's services, and the criteria used to determine which services are considered critical; the recovery tools available to address the risks of (a) uncovered losses or liquidity shortfalls resulting from the default of one or more Members, and (b) losses arising from non-default events (e.g., cyber-attack, or custody or investment losses), and the strategy for implementation of such tools.

The R&W Plan also establishes the strategy and framework for the orderly wind-down of FICC and the transfer of its critical services in the remote event the implementation of the available recovery tools does not successfully return FICC to financial viability. In the event the Board determines that FICC's recovery efforts have not been, or are unlikely to be, successful in returning FICC to financial viability, FICC would seek to identify a third party that is willing and able, as a successor financial market utility, to acquire, and continue to provide to the market, the critical services currently provided by FICC.

DOES FICC'S LOSS MUTUALIZATION INCLUDE ANY ASSET CLASS OTHER THAN FED ELIGIBLE SECURITIES?

No. FICC only clears transactions in Treasury securities, Agency Debentures and Agency Mortgage-Backed Securities and would not experience any losses related to asset classes that it does not clear. FICC's loss mutualization, which it has never triggered to date, is only utilized to address unsatisfied losses related to transactions in securities it clears after depletion of its other liquidity resources, including the defaulter's resources as well as FICC's own corporate contribution to those losses.