

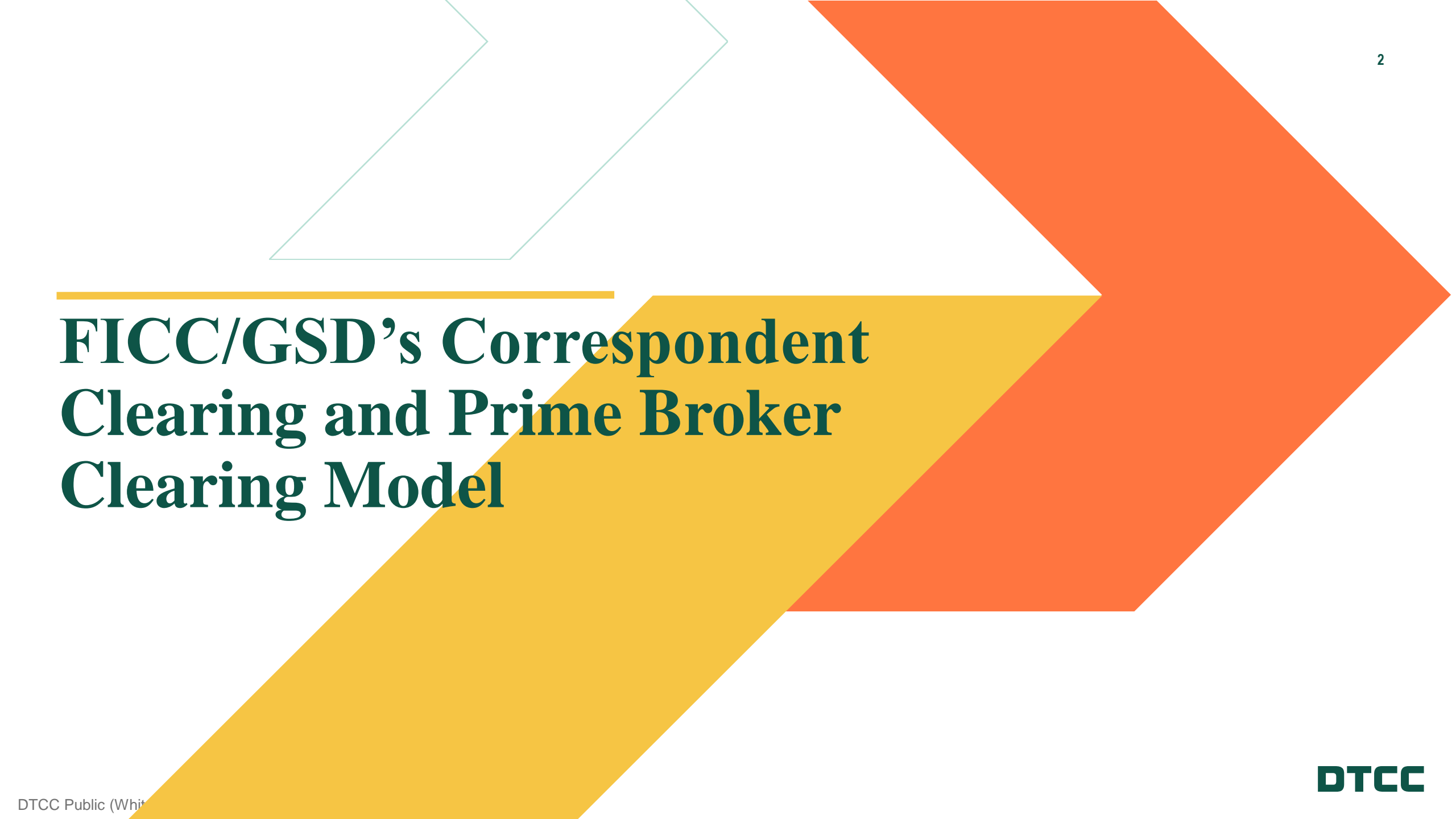
DTCC

FICC'S Client Clearing Capabilities for Treasury Market Activity

This document is for informational purposes only. Capitalized terms used herein and not otherwise defined have the meaning assigned to them in the GSD Rules. Reference should be made to the GSD Rules for a complete statement of the rules and procedures, rights, obligations, and other requirements applicable to the use of the services offered by GSD. In the case of any discrepancy between this document and the GSD Rules, the GSD Rules shall govern. The GSD Rules are available at <https://www.dtcc.com/legal/rules-and-procedures>

DATE: August 2023

DEPARTMENT: Fixed Income Clearing Corporation (FICC)



FICC/GSD's Correspondent Clearing and Prime Broker Clearing Model

- ▶ GSD Netting Members that are correspondent clearing firms or prime brokers (referred to as “Submitting Members” in the GSD Rules) are permitted to submit to FICC transactions on behalf of their clients that are not GSD members (referred to as “Executing Firms” in the GSD Rules).
- ▶ Executing Firms are represented by ticker symbols mapped to the relevant Submitting Member and must specifically authorize Submitting Members to submit on their behalf.
- ▶ The Submitting Member can submit eligible transactions executed between its Executing Firm and any of the following: another GSD Netting Member, the Submitting Member itself, another GSD Netting Member's client.
- ▶ These transactions can be submitted to either (1) Submitting Member’s own GSD Member account, or (2) a separate GSD Member account that it may establish for such activity.
- ▶ Eligible transactions include outright purchases and sales of U.S. Treasury and Agency securities, as well as two-directional (i.e., cash borrowing and cash lending) overnight and term DVP repo.

Trade Execution

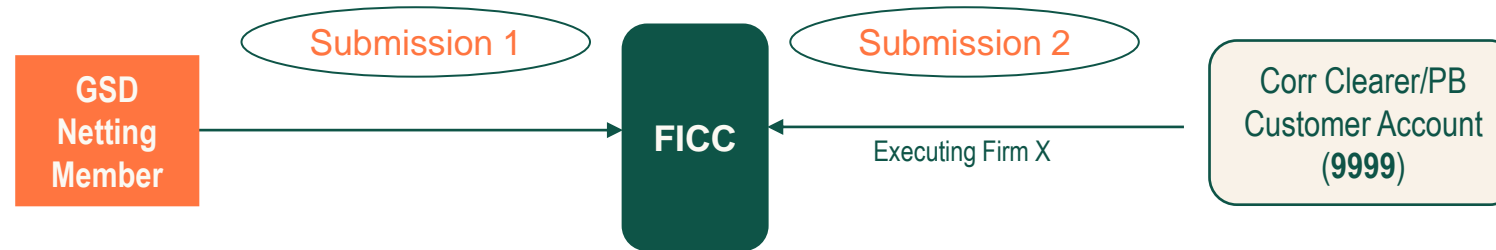


A Done-Away Correspondent Clearing/PB trade is a trade executed between a Submitting Member's Executing Firm and another GSD Netting Member or a Submitting Member's Executing Firm and an Executing Firm of another Submitting Member.

Step 1 – Trade execution: Executing Firm X executes a trade with a GSD Netting Member.

Step 2 – Notification of trade details: Executing Firm X notifies the Submitting Member of the executed trade details (vs. GSD Netting Member) so the Submitting Member can submit this trade to FICC for match.

Trade Submission

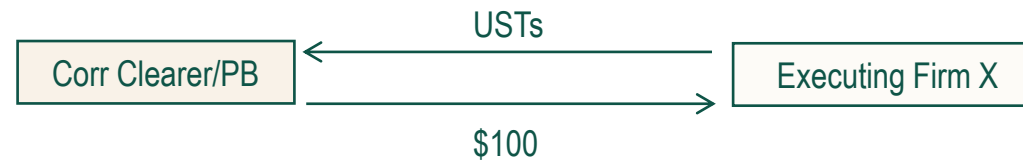


Submission 1: In this case, GSD Netting Member submits its side of the trade to FICC vs. the Submitting Member's Corr Clearing/PB Customer account (shown as account no. 9999 above).

Submission 2: The Submitting Member submits the trade on behalf of Executing Firm X. The trade is submitted from its Corr Clearing/PB Customer account (account no. 9999) with a “symbol” indicating that the trade was executed for Executing Firm X vs. the GSD Netting Member.

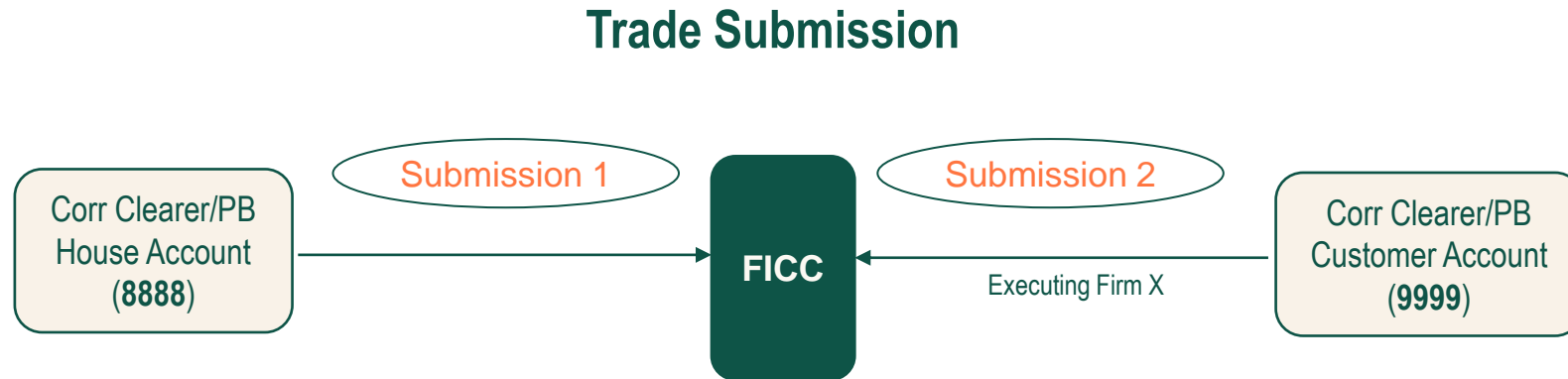
The novation of this trade occurs upon match at FICC.

Trade Execution



A Done-With Corr Clearing/PB trade is a trade executed between a Submitting Member and its Executing Firm.

Trade execution: Executing Firm X executes a trade with its own Corr Clearer/PB that is a GSD Netting Member.



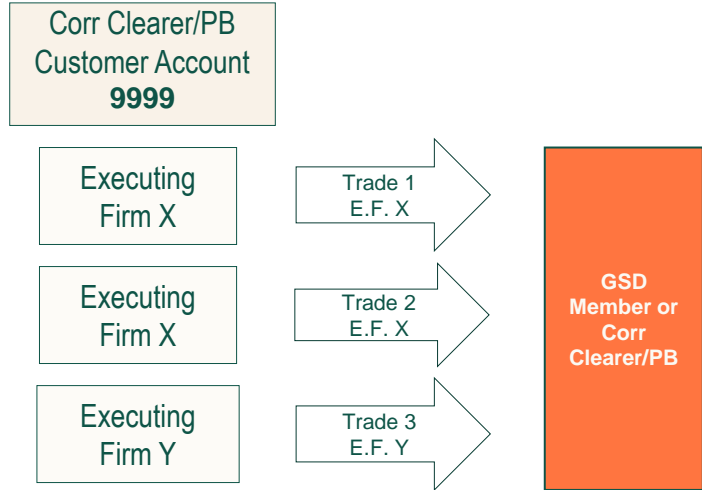
In order to facilitate the submission of a Done-With Corr Clearing/PB trade, a Submitting Member must have two accounts at FICC: one to represent its House activity including the trades with its Executing Firms (House Account no. 8888 above) and the other one to represent the Executing Firms' sides of the trades (Customer Account no. 9999 above).

Trade Submission: Corr Clearer/PB (Submitting Member) submits both sides of this trade to FICC for match. The Submitting Member's side is submitted out of its House Account (account no. 8888) and the side on behalf of the Executing Firm X is submitted from its Corr Clearer/PB Customer Account (account no. 9999) with a "symbol" indicating that the trade was executed for Executing Firm X.

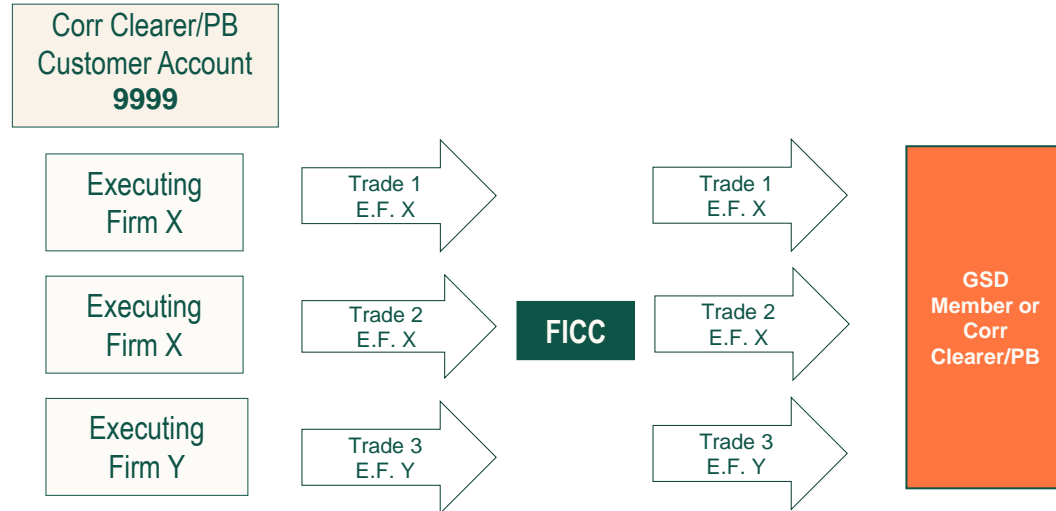
The novation of this trade occurs upon match at FICC.

Corr Clearing / PB Clearing Risk Management by FICC

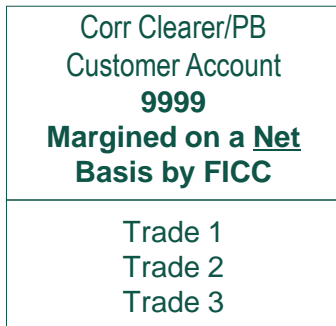
1 Trade Execution. Each trade has an Executing Firm identifier.



2 Trade Novation. Each trade is Novated to FICC.



3 CCP-Level Risk Management



Note 1: Submitting Member is subject to one net Clearing Fund requirement calculated to take into account any offset between the trades of 9999-X and 9999-Y.

Note 2: Executing Firms are not eligible to participate in the FICC/CME cross-margining arrangement.

Note 3: FICC does not have a separate Guaranty Fund. Clearing Fund deposits of GSD Members are subject to loss mutualization up to their Loss Allocation Cap described in GSD Rule 4, Section 7.

Note 4: All the trades in the Corr Clearing/PB House Account (account no. 8888) will be margined together on a net basis and are subject to loss mutualization up to their Loss Allocation Cap described in GSD Rule 4, Section 7.

- ▶ FICC only has a legal relationship with the Submitting Member and does not have any rights or obligations with respect to the Executing Firms.
- ▶ As a result, FICC calculates margin for a Corr Clearing/PB Customer account of a Submitting Member on a net (as opposed to gross) basis.
- ▶ FICC's liquidity needs related to activity submitted on behalf of Executing Firms are included in the calculation of the Submitting Member's Capped Contingent Liquidity Facility[®] (CCLF) requirement for a given account under the GSD Rules.
- ▶ The Submitting Member is obligated to satisfy all outstanding obligations to FICC in its capacity as GSD Netting Member and is not required to provide a guaranty of performance of its client Executing Firms (as is required for Sponsored Member activity, described on following slides).
- ▶ For example, the Submitting Member is responsible to FICC for all fees, settlement obligations, margin requirements, liquidity obligations and any loss allocation obligations attributed to all submitted activity, including activity submitted on behalf of an Executing Firm.



02

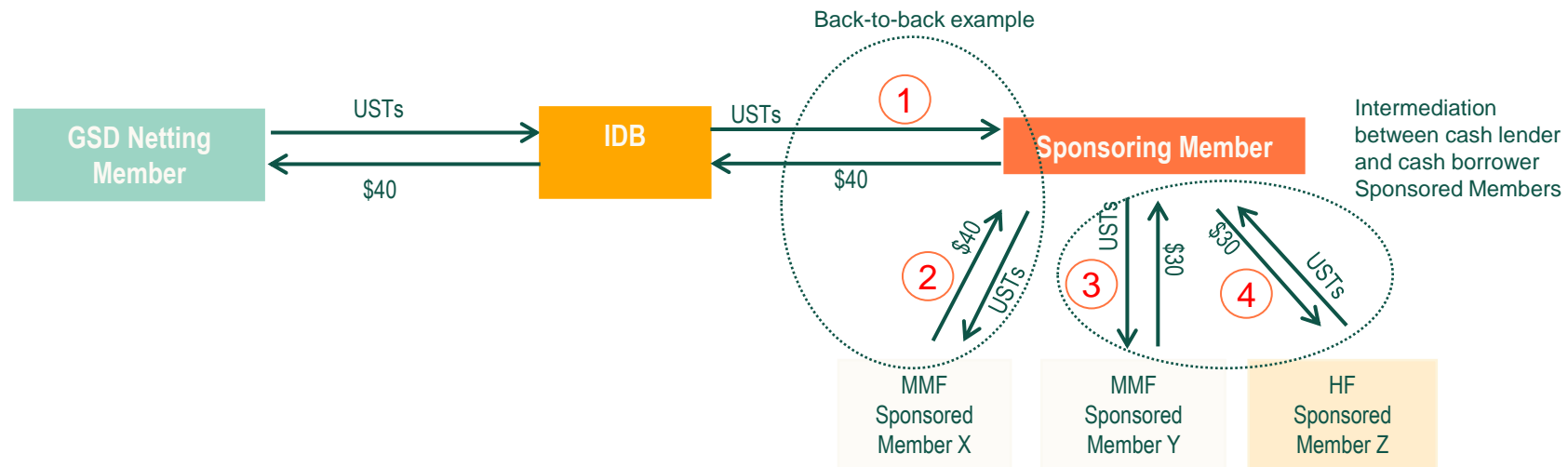
FICC/GSD's Sponsored Clearing Model

- ▶ Since 2005, GSD has offered a program under Rule 3A that allows eligible GSD Netting Members to act as “Sponsoring Members” for purposes of sponsoring certain buy-side entities (“Sponsored Members”) into a limited GSD membership.
- ▶ For operational and administrative purposes, a Sponsoring Member acts as processing agent on behalf of its Sponsored Members and establishes an omnibus account for all of its Sponsored Members’ activity, which is separate from the Sponsoring Member’s regular GSD netting account.
- ▶ A firm is eligible to be a Sponsored Member if it is established in a permitted jurisdiction, satisfies the QIB standard and is sponsored by at least one Sponsoring Member.
- ▶ Eligible transactions include outright purchases and sales of U.S. Treasury and Agency securities, two-directional (i.e., cash borrowing and cash lending) overnight and term DVP repo, and tri-party repo transactions in U.S. Treasury and Agency securities and Agency MBS.

- ▶ Sponsored DVP Transactions may be executed between a Sponsored Member and its Sponsoring Member (“Done With”) or between a Sponsored Member and another GSD Netting Member or another GSD Netting Member’s client (“Done-Away”).
- ▶ Like the listed futures market, a substantial portion of U.S. Treasury cash and repo transactions has, for decades, been executed anonymously on IDB platforms, rather than exchanges. However, market participants sometimes elect to execute U.S. Treasury cash and repo transactions bilaterally on a fully disclosed basis. Both, dealers facing other dealers, and clients facing their dealers may choose to execute trades in this manner for a variety of reasons, including internal treasury or operational requirements and regulatory constraints.
- ▶ As a post-trade central counterparty, GSD Netting Members are not limited in how they execute U.S. Treasury transactions that are submitted for clearing, so long as each counterparty to the transaction is either (1) another GSD Netting Member or (2) a client of a Netting Member on whose behalf the GSD Netting Member is acting.

Sponsored Clearing Model Sample TSY DVP Repo Trade (“Done With”)

Trade Execution – Sponsoring Member executes repo trades with its Sponsored Members.

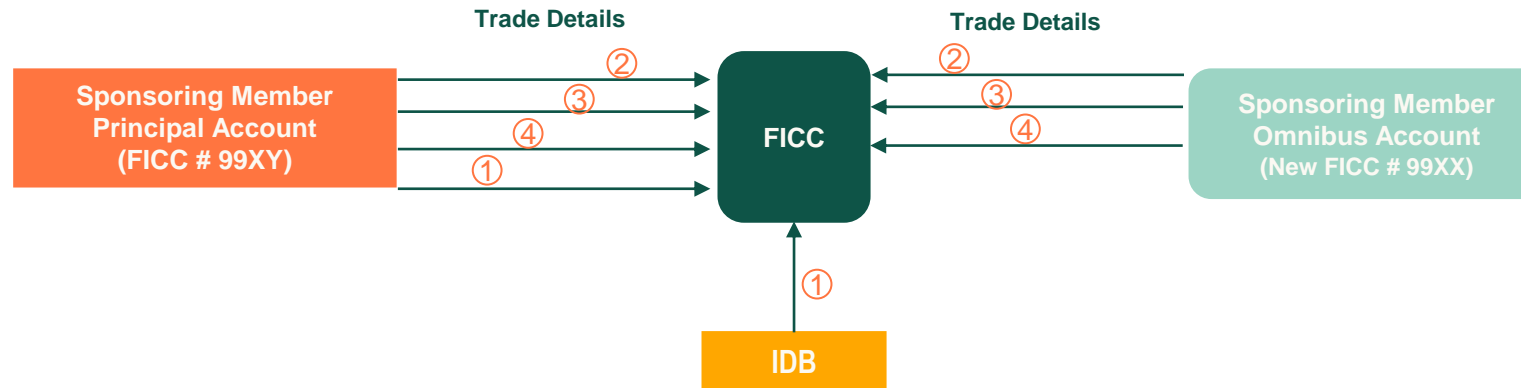


Trade 1: Sponsoring Member executes a \$40 Reverse Repo with an IDB (Note: This Reverse Repo could have also been executed by the Sponsoring Member directly with another GSD Netting Member).

Trades 2 and 3: Sponsoring Member executes two Repos versus MMF Sponsored Member X (\$40) and MMF Sponsored Member Y (\$30), respectively. MMFs are lending cash to the Sponsoring Member.

Trade 4: Sponsoring Member executes a \$30 Reverse Repo versus HF Sponsored Member Z, where a Sponsoring Member is reversing in securities from a HF.

Trade Submission



Submission Steps:

- ▶ **Trade 1:**
IDB and Sponsoring Member submit their side of Trade 1 to FICC. This trade is executed out of Sponsoring Member’s Principal account.
- ▶ **Trade 2:**
Sponsoring Member submits **both sides** of this trade to FICC. The first side is submitted from its Principal account and the second side from its Omnibus account. The submission of the Omnibus account side is done with a “symbol” indicating that trade is on behalf of Sponsored Member X.
- ▶ **Trades 3:**
Sponsoring Member submits **both sides** of this trade to FICC. The first side is submitted from its Principal account and the second side from its Omnibus account. The submission of the Omnibus account side is done with a “symbol” indicating that trade is on behalf of Sponsored Member Y.
- ▶ **Trade 4:**
Sponsoring Member submits **both sides** of this trade to FICC. The first side is submitted from its Principal account and the second side from its Omnibus account. The submission of the Omnibus account side is done with a “symbol” indicating that trade is on behalf of Sponsored Member Z.
- ▶ The novation of the end legs of Sponsored Member Trades 2, 3, and 4 occurs upon match at FICC. For Trade 1, assuming it is a same-day settling repo, FICC may also settle the start leg of the repo as part of its Same-Day Settling Service and, in that case, FICC would novate the start leg of Trade 1 upon match as well.

Sponsored Clearing Model Sample TSY DVP Repo Trade (“Done Away”)

Sponsored Member executes a trade with a GSD Netting Member other than its Sponsoring Member.

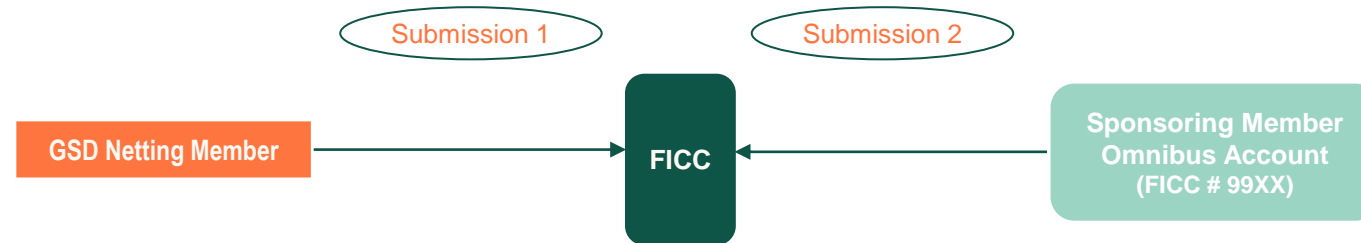


Step 1 – Trade execution: Sponsored Member X executes a trade with a GSD Netting Member other than its Sponsoring Member.

Step 2 – Notification of trade details: Sponsored Member X notifies its Sponsoring Member of the executed trade details.

Sponsored Clearing Model Sample TSY DVP Repo Trade (“Done Away”)

Trade Submission

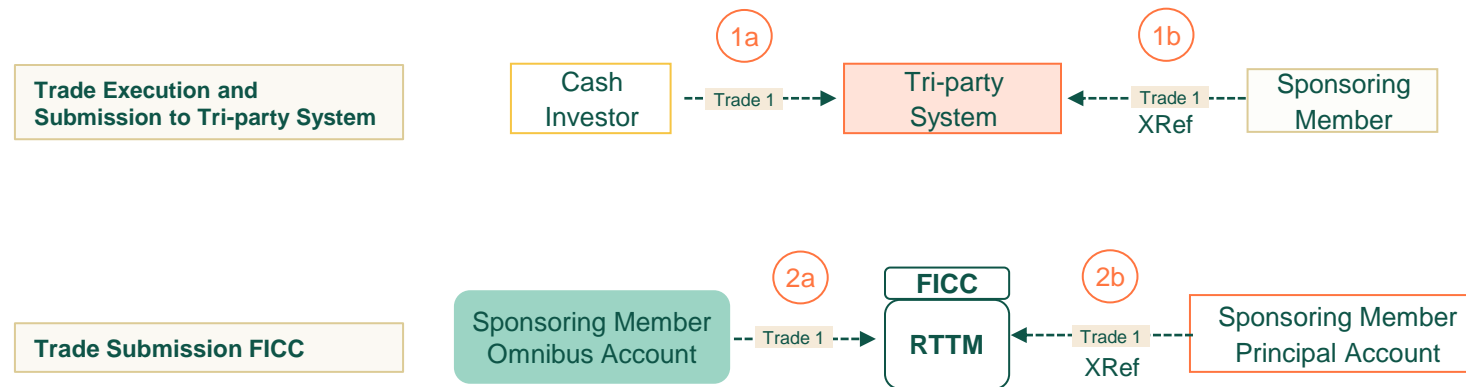


Submission 1: GSD Netting Member submits a Reverse Repo trade to FICC vs. Sponsoring Member Omnibus Account.

Submission 2: Sponsoring Member, as a processing agent for its Sponsored Member X, submits a Repo trade on behalf of that Sponsored Member. The trade is submitted from the Sponsoring Member’s Omnibus Account with a “symbol” indicating that the trade was executed for Sponsored Member X.

Assuming this is a same-day settling Repo Trade, the novation of the start leg and end leg of this trade occurs upon match at FICC as part of the Same Day Settling Service.

Trade Execution and Submission



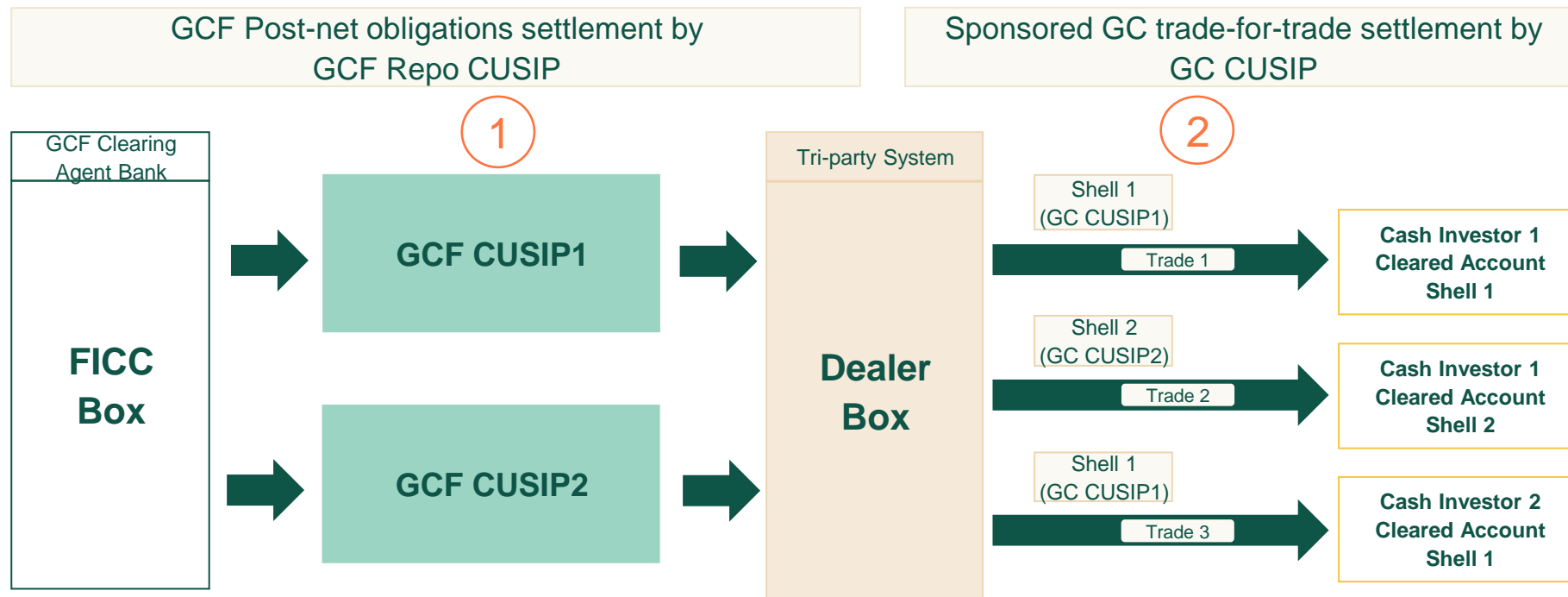
Steps 1a and 1b: Sponsoring Member executes Sponsored GC Trade directly with a Sponsored Member/Cash Investor. Both parties submit their side of a trade to a Sponsored GC Clearing Agent Bank (on these slides referred to as Tri-party system).

Steps 2a and 2b: Sponsoring Member submits its side of a Sponsored GC Trade to FICC and, as a processing agent for its Sponsored Member, submits Cash Investor's¹ side of the trade to FICC.

Note: The reference field on a Sponsoring Member's submission of a Sponsored GC Trade to Tri-party system and to FICC must match.

¹ Sponsored GC Service supports both, cash lending and cash borrowing activity. This example shows the flow for the cash borrowing activity by the Sponsoring Member.

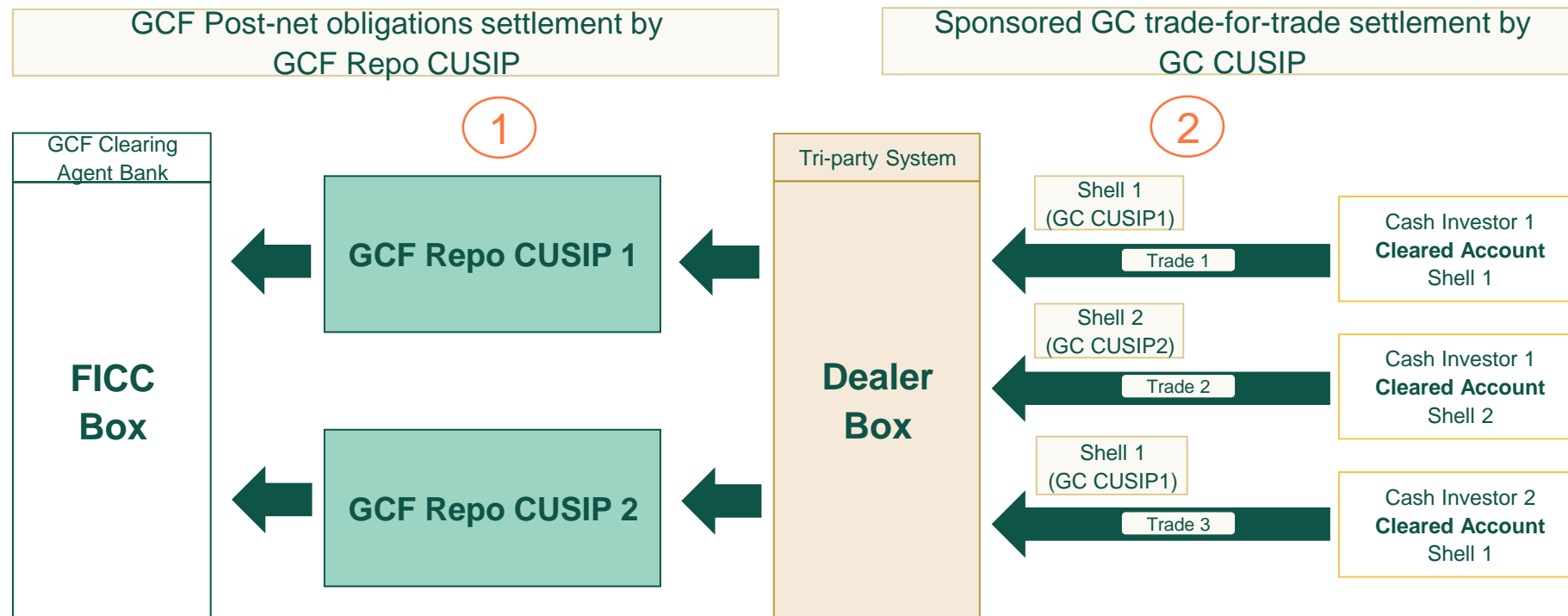
Start Leg Settlement – Example shows when the source of securities is GCF



- (1) The left side of the picture shows post-net settlement of GCF obligations. Securities are allocated from GSD's GCF account on the Tri-party system to the Sponsoring Member's Dealer account on the Tri-party system.
- (2) The right side of the picture shows trade-for-trade settlement of Sponsored GC Trades. Sponsored GC Trades settle directly between a Sponsoring Member and its Sponsored Members.

Note: Novation of a Sponsored GC Trade takes place only if a start leg of that trade settles by 5:30pm ET on the Tri-party system.

End Leg Settlement

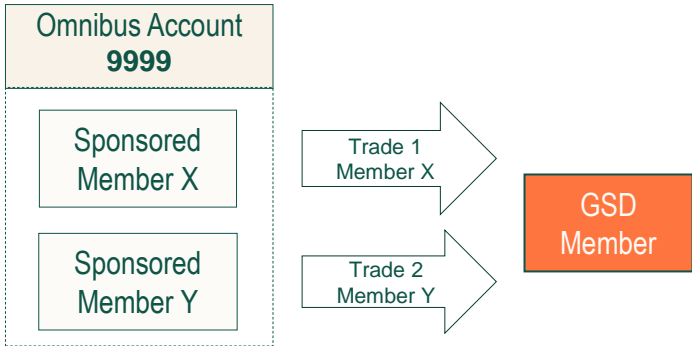


- (1) The left side of the picture shows post-net settlement of GCF obligations.
- (2) The right side of the picture shows trade-for-trade settlement of Sponsored GC Trades. The End Legs of Sponsored GC Trades unwind directly between a Sponsoring Member and its Sponsored Members.

Sponsored Member Risk Management

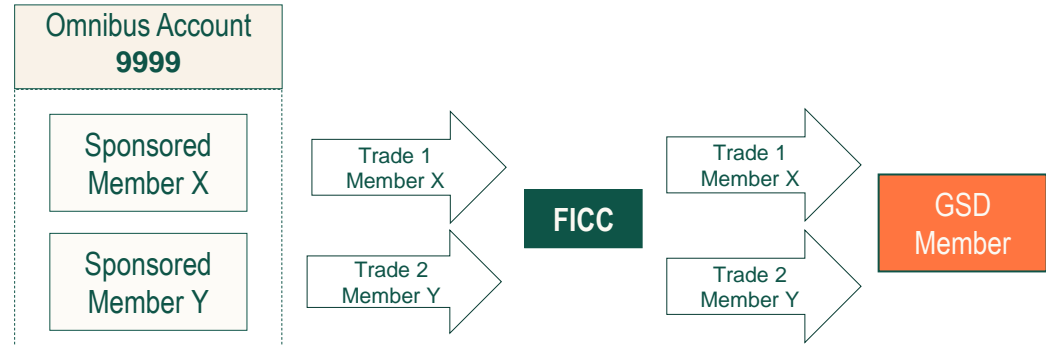
1

Trade Execution:
Each trade has a Sponsored Member identifier.



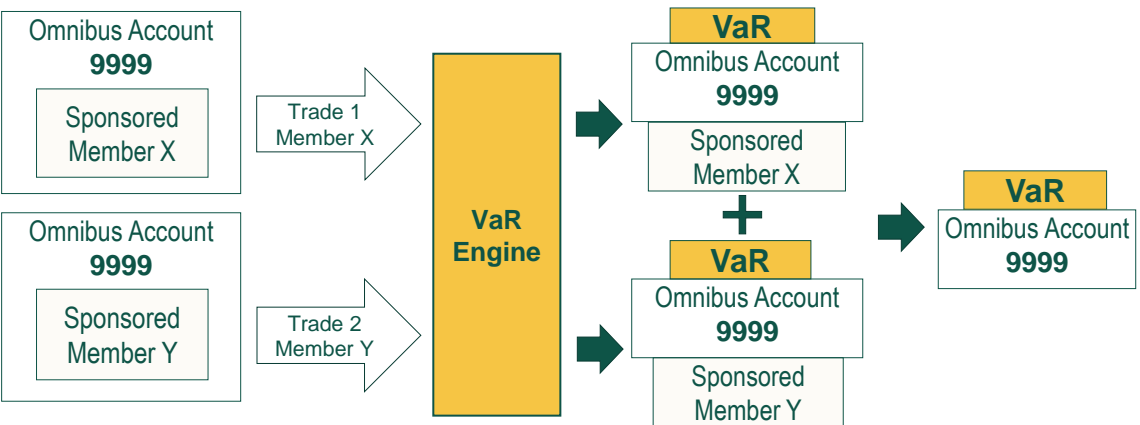
2

Trade Novation: Each trade is Novated to FICC.



3

Risk Management



Each Sponsored Member trade flows to the risk engine with an Omnibus Account and the Sponsored Member client "symbol" identifier.

Two VaR amounts are calculated: (1) for account 9999-X, which will include 1 trade for Sponsored Member client X, and (2) for account 9999-Y which includes 1 trade for Sponsored Member client Y. VaR margin amount for the Omnibus Account 9999 will be the sum of VaR margin calculated for accounts 9999-X and 9999-Y.

Note 1: Sponsored Members are not eligible to participate in the FICC/CME cross-margining arrangement.

Note 2: FICC does not have a separate Guaranty Fund. Clearing Fund deposits of GSD Members are subject to loss mutualization up to the Loss Allocation Cap in GSD Rule 4.

Note 3: Sponsored Members are specifically excluded from loss mutualization pursuant to GSD Rule 3A.

Sponsored Member Service Risk Considerations

- ▶ Sponsored Members are limited members of FICC and have certain rights and obligations pursuant to the GSD Rulebook.
- ▶ Sponsoring Members are responsible to FICC for all of Clearing Fund required deposits associated with the activity of the Sponsoring Member Omnibus Account, which is calculated twice daily on a gross basis.
- ▶ For Clearing Fund calculation purposes, each Sponsored Member's trading activity includes a separate VaR charge and the sum of those VaR charges is collected and held by FICC separate from the Clearing Fund required deposits collected from the Sponsoring Member for its proprietary activity.
- ▶ While Sponsored Members are *principally liable* to FICC for their securities and funds-only settlement obligations, the Sponsoring Member is required to provide a guaranty to FICC with respect to all obligations of its Sponsored Members. If a Sponsored Member does not satisfy any of its obligations to FICC, FICC will look to the Sponsoring Member to satisfy those obligations in full pursuant to the guaranty.
- ▶ Liquidity needs created by activity in the Sponsoring Member Omnibus Account will be considered when calculating the Sponsoring Member's CCLF requirement under the GSD Rulebook. Note, that Sponsored activity transacted between the Sponsoring Member Principal Account and Sponsoring Member Omnibus Account (i.e., without a street-side transaction) does not create a liquidity need for FICC.
- ▶ Submitting Members are responsible to FICC for all fees, margin requirements, liquidity obligations and any loss allocation obligations attributed to all submitted activity, including activity of their Sponsored Members.



Thank You

The background features a large, light beige arrow pointing to the right, centered horizontally. To the left of the arrow is a teal-colored triangle pointing right. To the right of the arrow is a large orange triangle pointing left. A thin yellow line forms a triangle above the arrow, with its base on the arrow's top edge and its apex pointing upwards.

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