

FICC FAQ

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QUESTION #1

WHAT IS FICC?

QUESTION #1 ANSWER:

- 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
 - 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, including FICC, that have been designated as Systemically Important Financial Market Utilities (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.

QUESTION #2

**WHO OWNS FICC, AND HOW
IS IT GOVERNED?**

QUESTION #2 ANSWER:

- Through its holding company structure and governance, FICC is essentially owned and governed by the market participants that it serves.
- 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
 - This governance arrangement is 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.
- FICC's board of directors is 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.
 - Aligns incentives between FICC and the industry.

QUESTION #3

**DOES FICC HAVE EXPERIENCE
CLEARING TREASURIES?**

QUESTION #3 ANSWER:

Yes. The Government Securities Division of FICC and its predecessor the Government Securities Clearing Corporation have been clearing, netting and settling for the U.S. Treasury market since 1986.

QUESTION #4

**HOW DOES FICC MARGIN
TREASURY ACTIVITY?**

QUESTION #4 ANSWER:

- FICC calculates and collects deposits to its Clearing Fund – which is similar to the initial margin a derivatives CCP would collect – using a risk-based methodology that includes a sensitivity-based value-at-risk (VaR) approach.
 - These deposits are designed to limit the risk exposures posed by Members’ unsettled portfolios. GSD is able to quickly adjust and collect additional deposits as needed to cover those risks.
- At least twice daily, GSD calculates and collects Clearing Fund deposits, which vary based on the members’ trading activity.
 - Clearing Fund deposits may be satisfied by depositing either cash, or a combination of cash and eligible securities (subject to haircuts and concentration limits).
- Netting Members that are Sponsoring Members make separate Clearing Fund deposits for their Netting Member activity and Sponsoring Member activity.

QUESTION #5

**DOES FICC OFFER TOOLS FOR
ESTIMATING CLEARING FUND
REQUIREMENTS?**

QUESTION #5 ANSWER:

Yes. FICC makes available to Netting Members a Value-at-Risk (VaR) calculator that can be used to estimate their Clearing Fund requirements based on, for example, addition or subtraction of positions and other proposed changes to their FICC-cleared portfolios.

QUESTION #6

**ARE THERE GUIDELINES
AROUND FICC'S INVESTMENT
OF THE CLEARING FUND?**

QUESTION #6 ANSWER:

Yes. FICC's investment of cash deposits to its Clearing Fund is done consistent with an investment policy that has been filed with, and approved by, the SEC as a rule of FICC.

- Pursuant to that investment policy, cash deposits to the Clearing Fund are held at approved commercial banks that meet prescribed credit standards or at FICC's cash deposit account at the Federal Reserve Bank of New York (FRBNY).
- All eligible Clearing Fund securities are held on deposit at a custodian bank for GSD.

QUESTION #7

**WHAT DOES FICC DO TO
ADDRESS PROCYCLICALITY
CONCERNS?**

QUESTION #7 ANSWER:

- Consistent with the anti-procyclicality tools recommended under the European Market Infrastructure Regulation, FICC addresses the procyclicality of its value-at-risk (VaR) margin charge by applying a 10-year lookback period that incorporates an additional stress period if FICC determines that the historical look-back period does not contain adequate shocks.
- Procyclical impacts of its margining are also mitigated through FICC's ongoing member engagement – for example, through members' use of FICC's VaR calculator and Clearing Fund reporting, which help members manage their market risk on an ongoing basis and increase their awareness of related impacts.

QUESTION #8

**IS SPONSORED
MEMBERSHIP THE ONLY
ACCESS MODEL FOR
THE BUYSIDE?**

QUESTION #8 ANSWER:

No. Market participants that are unable to become Netting Members have a number of options to access clearing at FICC. GSD's multiple client clearing models and limited direct access models are outlined in the table below:

Treasury Cash Access Options	Treasury Repo Access Options
Prime Broker Clearing	Prime Broker Clearing
Correspondent Clearing	Correspondent Clearing
Sponsored Clearing	Sponsored Clearing
Tier Two Netting Membership for Registered Investment Companies (RICs) (<i>Direct Access</i>)	Tier Two Netting Membership for Registered Investment Companies (RICs) (<i>Direct Access</i>)
	Centrally Cleared Institutional Triparty Service (CCIT) (<i>Limited Direct Access</i>)

QUESTION #9

**SHOULD FICC'S CLIENT
CLEARING MODELS BE
CONSIDERED "REAL"
CENTRAL CLEARING?**

QUESTION #9 ANSWER:

- Yes. FICC's various client clearing models provide substantially the same benefits of clearing (centralized risk management and centralized default management) and substantially the same guarantee of settlement as are offered under an FCM-style client clearing offering in the derivatives space.
- In the event a Sponsoring Member, Prime Broker or Correspondent Clearer defaults, it is expected that Sponsored Members (in the case of a Sponsoring Member default) or Executing Firm clients (in the case of a Prime Broker or Correspondent Clearer default) would have SIPA customer or similar custodial claims for the return of their assets and any amounts paid by FICC. It is also expected that Sponsored Members and Executing Firm clients would not be treated as general creditors as would be the case upon a default in a bilateral transaction. *Firms should consult counsel regarding the possible impacts of a clearing intermediary default under applicable bankruptcy law.*

QUESTION #10

**DOES FICC EVER HOLD SECURITIES
SETTLED THROUGH CLEARING?**

**DOES FICC SETTLE TRANSACTIONS ON
ANYTHING OTHER THAN ON A DELIVERY-
VERSUS-PAYMENT (DVP) BASIS?**

QUESTION #10 ANSWER:

No. FICC does not hold any property for participants other than Clearing Fund. Clearing Fund deposits for indirect participants' activity are made by the Netting Member responsible for that indirect participant, *i.e.*, the Sponsoring Member, Prime Broker or Correspondent Clearer.

All FICC-cleared transactions settle DVP, either on a bilateral or tri-party basis.

QUESTION #11

WHICH START LEGS OF TREASURY REPOS DOES FICC NOVATE AND SETTLE?

IF THE START LEG OF A SPONSORED REPO IS NOT NOVATED TO FICC, DOES THAT MEAN THE TRADE IS NOT IN "REAL" CENTRAL CLEARING?

QUESTION #11 ANSWER:

- The start legs of many types of cleared repo transactions are novated to and settled by FICC, including:
 1. the start legs of all repos transactions between two Netting Members of FICC,
 2. the start leg of any repo under Sponsored DVP Service (a Sponsored DVP Repo) where the Sponsored Member's pre-novation counterparty is a third-party member of FICC (i.e., "done-away" from the Sponsoring Member)
 3. any Sponsored DVP Repo where the start leg of such repo is scheduled to settle on some business day in the future.
- FICC's decision not to novate and settle start legs of same-day settling Sponsored DVP Repos executed with a Sponsoring Member and Sponsored GC Repos was deliberate and made in consultation with the industry. FICC is willing and capable of novating and settling the start legs of any repo transaction that it clears.
- The fact that FICC does not currently novate and settle the start leg of certain Sponsored Member repo transactions has no effect on the guarantee of settlement, comparison, centralized risk management, centralized default management, and other benefits provided by FICC on the end leg of such repo transaction.

QUESTION #12

**DOES FICC REQUIRE
INDIRECT PARTICIPANTS
TO POST MARGIN, AND WILL
THAT CHANGE IF THE SEC
PROPOSAL IS ADOPTED?**

QUESTION #12 ANSWER:

- No. Clearing Fund requirements related to indirect participants' activity are the responsibility of the Sponsoring Member, Prime Broker or Correspondent Clearer, as applicable.
 - For example, Sponsoring Members are required to make separate deposits to the Clearing Fund for their Netting Member activity and Sponsoring Member activity.
- FICC does not require indirect participants to post margin and, at this time, does not expect this practice to change to the extent the SEC's proposed rule is adopted.
- Note: The GSD Rules do not preclude indirect participants from contributing to Clearing Fund requirements through their Sponsoring Member, Prime Broker or Correspondent Clearer, as applicable.

QUESTION #13

**DOES FICC RECORD
CLEARED POSITIONS OF
INDIRECT PARTICIPANTS?**

QUESTION #13 ANSWER:

Yes. FICC records positions of Sponsored Members and positions of Executing Firms of a Prime Broker, as long as the Prime Broker submits the trades to FICC using a unique client identifier called the “Executing Firm symbol”.