



FICC GSD Sponsored GC Service Expansion Frequently Asked Questions (FAQs)

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Sponsored GC Fundamentals

Who is FICC GSD?

The Fixed Income Clearing Corporation (FICC) is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). FICC, is a registered clearing agency with the Securities and Exchange Commission (SEC) and designated as a “Systemically Important Financial Market Utility” by the Financial Stability Oversight Council. As a registered clearing agency, FICC is subject to the requirements that are contained in the Exchange Act and in the SEC’s regulations and rules. These requirements include the Covered Clearing Agency Standards, which provide enhanced standards for entities that meet the definition of “covered clearing agency.”

FICC has two divisions: the Mortgage-Backed Securities Division (MBSD) and the Government Securities Division (GSD).

GSD as a division of FICC is the leading provider of real-time trade matching, risk management, novation, netting and settlement services for the U.S. Government securities marketplace. Eligible transactions that clear through FICC GSD include DVP buy/sell and repo transactions, and tri-party repo transactions through FICC GSD’s Sponsored GC, CCIT™ and GCF Repo Services.

What is the Sponsored GC Service?

The Sponsored General Collateral (GC) Service allows Sponsoring Members and their clients (Sponsored Members) to execute tri-party repo transactions (referred to as “Sponsored GC Trades”) with each other on a general collateral basis in the same asset classes that are currently eligible in FICC’s GCF Repo® Service. Sponsored GC Trades are settled on a tri-party repo platform of GSD’s Sponsored GC Clearing Agent Bank in the same way Sponsoring Members and Sponsored Members settle tri-party repo transactions with each other outside of central clearing.

What are the proposed changes associated with the Sponsored GC Service?

The landscape of securities financing is continuously evolving, and FICC GSD is once again at the forefront with its Sponsored General Collateral (GC) Service Expansion. This proposed expansion would introduce two major service enhancements:

1. A new done-away capability to the existing Sponsored GC Service whereby Sponsored Members would be able to execute Sponsored GC Trades with a Netting Member other than their Sponsoring Member (referred to as a “Done-away Netting Member”) or an Indirect Participant of a Done-away Netting Member, and
2. A new "Collateral In Lieu" capability within the Sponsored GC Service that leverages much of the legal and operational framework of the existing service. Sponsored Member Cash Investors (“referred to as a CIL Funds Lender”) would be able to execute tri-party repo transactions on a general collateral basis with their Sponsoring Member or on a done-away basis with a Done-away Netting Member or an Indirect Participant (each referred to as a Done-away Counterparty”) without the customary posting of margin by the Sponsored Member’s Sponsoring Member (referred to as “Sponsored GC CIL Trades”).

There are some key differences between the existing Sponsored GC Service and the proposed CIL Service, such as the way in which FICC’s proposes to manage the market risk associated with Sponsored GC CIL Trades, the proposed mandatory application of an initial haircut on all Sponsored GC CIL Trades and FICC’s proposal to eliminate Funds-Only Settlement Amount payments on the CIL Funds Lender side of the Sponsored GC CIL Trade.

These proposed service offerings have been designed to increase the ability of cash providers’ access to FICC’s clearance and settlement services.

What is a “done-with” Sponsored GC Trade?

A “done-with” Sponsored GC Trade is the current trading model offered under the Sponsored GC Service whereby a Sponsored Member can execute tri-party repo transactions on a general collateral basis only with their Sponsoring Member.

What is a “done-away” Sponsored GC Trade?

A “done-away” Sponsored GC Trade is a trade executed on a general collateral basis between a Sponsored Member and a Done-away Counterparty. The Sponsored Member’s Sponsoring Member would continue to act as guarantor and processing agent for their clients’ done-away trades.

Can an existing FICC Omnibus Account be used to house Sponsored GC and CIL trading activity?

No. Sponsoring Members would be required to open a new non-segregated Omnibus Account (referred to as a “Sponsored GC CIL Omnibus Account”) to record the CIL activity of their Sponsored Members separate and apart from all of their other Sponsored activity due to the differences in how Sponsored GC CIL Trades are risk managed.

Service Features and Functionality

How will the Collateral in Lieu (CIL) Service work?

The “Collateral in Lieu” (CIL) Service would allow a Sponsored Member Cash Investor (referred to as a “CIL Funds Lender”) to execute overnight and term general collateral tri-party repo transactions on a “done-with” or “done-away” basis. Key aspects of the service include:

- The CIL Funds Lender and its Sponsoring Member would need to be onboarded onto FICC’s platform before the CIL Funds Lender could execute its first trade.
- The CIL Funds Lender and its counterparty (referred to as a “GC Funds Borrower”) would need to each establish a tri-party account at a Sponsored GC Clearing Agent Bank before their first trade execution.
- Only U.S. Treasuries would be traded and used as collateral for the service.
- CIL Funds Lenders would need to allow FICC to have a targeted lien on the U.S. Treasury collateral sold to the CIL Funds Lender at the start leg of a repo transaction.
- The U.S. Treasury collateral would be held in a dedicated “Collateral In Lieu” tri-party account at the Sponsored GC Clearing Agent Bank.
- CIL Funds Lenders would always be the lenders of cash and receivers of U.S. Treasury collateral.
- All Sponsored GC CIL Trades would be required to have a haircut. FICC has proposed a 2% haircut initially, which is subject to change by FICC, but in any case floored at 2%.

What are some of the benefits of this service expansion?

Some of the benefits of this expansion of services would include, but are not limited to:

- Ease of adoption for existing Sponsoring Members and Sponsored Members by leveraging the existing Sponsored GC Service’s legal and operational framework.
- For transactions where FICC has a lien on the U.S. Treasury collateral of the CIL Funds Lender, its Sponsoring Member would not have to guarantee the performance of the CIL

Funds Lender, thereby reducing the Sponsoring Member's costs and reciprocally, increasing the capacity of the CIL Funds Lender.

- Sponsoring Members may benefit from a reduction in capital requirements and balance sheet relief that may not be available to the same extent the Sponsoring Members were to engage in the same trading activity with their Sponsored Member clients outside of a central counterparty.
- Facilitation of greater access to central clearing, leading to increased capacity and liquidity in the market.
- Greater predictability and legal certainty than in other clearing models in the event a default of the Sponsoring Member or GC Funds Borrower.
- Mitigation of the risk of a large-scale exit by institutional firms from the U.S. financial market in a stress scenario which would lower the risk of a liquidity drain and, a market disruption from fire sales in such a scenario.

What are the key differences between Sponsored GC CIL Trades and Sponsored GC Trades?

Sponsored GC CIL Trades would generally be treated as Sponsored GC Trades under the FICC GSD Rulebook (the "Rules"), but with key differences. Such differences would include the use of a lien to eliminate double margining, Sponsored Members only acting as CIL Funds Lenders and not as borrowers of funds, the ability to submit transactions entered into by multiple CIL Funds Lenders using a joint trading account, and the elimination of Funds-Only Settlement Amount payments for the CIL Funds Lender's side of the trade.

What are the eligible collateral types under the CIL Service?

Initially, only U.S. Treasuries would be eligible for trading in the CIL Service. Specific eligibility criteria for each eligible Sponsored GC Generic CUSIP can be sourced from a Sponsored GC Clearing Agent Bank.

Operational Mechanics

Similarities to the current operational trade flow of the Sponsored GC Service:

- The CIL Funds Lender and the GC Funds Borrower would execute their trade away from FICC.
- All Sponsored GC CIL Trades would have to be submitted and compared on both the tri-party repo platform and FICC GSD RTTM Web.
- The comparison of Sponsored GC CIL Trades on the tri-party repo platform would be done in similarly to how tri-party repo trades are compared today.
- At FICC, the submission of the CIL Funds Lender's side of the trade (reverse repo) would be the responsibility of a Sponsoring Member as processing agent. Such submission would be to a specific position keeping account call a "Sponsored GC CIL Omnibus Account". The GC Funds Borrower would be responsible for submitting the repo side of the trade to FICC.
- The same U.S. Treasury Sponsored GC Generic CUSIPs and the same Schedule I that are applicable under the Sponsored GC Service would apply to Sponsored GC CIL Trades.
- Sponsored GC CIL Trades would have to be submitted, matched and settled within established timeframes and repo interest would be paid daily on the tri-party repo platform.
- Settlement of both the start leg and end leg would occur on the tri-party repo platform.

What is the max trade size that can be submitted on a CIL Trade?

The current maximum amount for tri-party repo transactions is 9,999,000,000, however, FICC is planning to increase the maximum amount to 30,000,000,000 later this year.

What is the max term allowed for a CIL Trade?

For any repo transaction to be novated to FICC, it must be submitted and compared with a term no greater than two years (or 735 days).

How does the CIL Service facilitate transactions through joint trading accounts?

First, the joint trading account would need to meet certain requirements to be onboarded into the CIL Service where a unique 4 character alpha-numeric identifier would be assigned to the account by FICC. Second, each of the CIL Funds Lenders in the joint trading account would need to be onboarded to FICC and meet its membership requirements for Sponsored Membership. Each of the CIL Funds Lenders would be assigned a 4- or 5- character alpha-numeric identifier that the joint trading account would use to identify the trades of each CIL Funds Lender in the circumstances described in the Rules.

Once onboarded, the joint trading account would be permitted to submit to FICC for novation transactions that have been entered into by one or more CIL Funds Lenders within the joint trading account.

Risk Management

Why are Funds-Only Settlement Amount payments being eliminated for Sponsored GC CIL Trades?

FICC proposes to eliminate Funds-Only Settlement Amount payments as they relate to the CIL Funds Lender side of a Sponsored GC CIL Trade because cash providers are often not operationally able to make or receive such payments, and the lien on the U.S. Treasury collateral of the Sponsored GC CIL Trade would ensure that FICC would be able to access such collateral to ensure the CIL Funds Lender's performance.

Why does FICC require a lien on the collateral of a Sponsored GC CIL Trade?

As proposed, FICC would not collect a Clearing Fund Requirement (CFR) for CIL done-away activity. Instead, FICC has proposed to take a lien on the securities purchased by the CIL Funds Lender as part of the start leg of the repo transaction. This lien would allow FICC to facilitate the settlement of the outstanding CIL positions in the event of a default of the CIL Funds Lender or its Sponsoring Member. FICC's lien on the collateral would eliminate the need for it to collect a CFR in order to satisfy the CIL Funds Lender's obligations.

For CIL done-with activity, FICC would not collect a CFR unless the Sponsoring Member has enabled done-with trading for its' CIL Omnibus Account and it (or one of its affiliated entities) has a Segregated Indirect Participant's Account (either a Sponsoring Member Omnibus Account or an Agent Clearing Member Omnibus Account) on FICC's books and records. In such case, FICC would calculate a CFR for the Sponsoring Member ("Sponsored GC CIL Omnibus Account Required Fund Deposit") as a measure to mitigate the losses incurred if such Sponsoring Member were to default.

If applicable, the Sponsored GC CIL Omnibus Account Required Fund Deposit would be the greater of a \$1 million minimum and the sum of all applicable charges, which would include a VaR Charge (calculated for each CIL Funds Lender as the positive difference between (1) the amount of VaR Charge that FICC would have collected if the Sponsored GC CIL Trades of that CIL Funds Lender had been subject to the calculation of a Sponsoring Member Omnibus Account Required Fund Deposit, and (2) the aggregate of all CIL Required Haircuts on that CIL Funds Lender's Sponsored

GC CIL Trades), a Portfolio Differential Charge, and other applicable charges. Other applicable charges may include a Backtesting Charge, Holiday Charge, Margin Liquidity Adjustment Charge and Intraday Supplemental Deposit.

What is an Initial Haircut and why is it required for all CIL Trades?

Pursuant to the Rules, the term "Initial Haircut" means, (i) as regards any Sponsored Member Trade that is not a Sponsored GC Trade, the absolute value of the dollar difference, if any, between the Market Value of the Sponsored Member Trade, as of the settlement date of the Start Leg, and the Contract Value of the Start Leg of the Sponsored Member Trade and (ii) as regards any Sponsored GC Trade, any difference between (x) the Contract Value of the Start Leg of the Sponsored GC Trade and (y) the GC Start Leg Market Value.

Initial Haircuts are permitted, but not required, for all Sponsored Member Trades, except for Sponsored GC CIL Trades.

The Initial Haircut required for Sponsored GC CIL Trades would be no less than 2% of the Contract Value of the Start Leg of a Sponsored GC CIL Trade ("CIL Required Haircut"). The CIL Required Haircut would be used by FICC in the event of the Sponsoring Member's default where such resources are needed to satisfy the obligations of a CIL Funds Lender of the defaulted Sponsoring Member.

How does the CIL Service address "double margining"?

The CIL Service would use a targeted lien in favor of FICC on the U.S. Treasury collateral sold to the CIL Funds Lender at the start leg of a repo transaction to reduce the margin and capital costs of providing cash investors with access to FICC's clearance and settlement services. This lien eliminates the need for FICC to collect margin with respect to Sponsored GC CIL Trades in many circumstances.

Are there any liquidity risk considerations?

Sponsoring Members will be responsible for any and all CCLF obligations attributed to its Sponsored Member(s) activity, inclusive of any novated Sponsored GC CIL Trades.

Sponsoring Members will be responsible for any loss allocation obligations attributed to their Sponsored Member(s) activity, inclusive of any novated Sponsored GC CIL Trades.

Fees

Sponsoring Members will be responsible for all FICC fees associated with its Sponsored Member(s) activity. The existing fee structure applicable to Sponsored GC Trades will be applied to both Sponsored GC Done-Away Transactions and Sponsored GC CIL Trades.

In Conclusion

The FICC GSD Sponsored GC Service Expansion represents a significant step forward for industry participants seeking greater flexibility, reduced costs, and enhanced predictability in their repo and collateralized financing activities. By introducing the "done-away" capability and the Collateral in Lieu Service, FICC is responding to evolving market needs while maintaining robust risk management controls, adhering to regulatory standards and providing operational transparency.

For further details, stakeholders are encouraged to refer to official rule filings, consult directly with their FICC Relationship Manager and if applicable their representative at a Sponsored GC Clearing Agent Bank.

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