DTCC

F.A.Q. FICC - Risk Management

HOW DOES FICC MARGIN TREASURY ACTIVITY?

FICC calculates and collects Required Fund Deposits to its Clearing Fund using a risk-based margin methodology that includes a sensitivity-based value-at-risk (VaR) approach. All Netting Members of the Government Securities Division (GSD) of FICC (direct, full service clearing members) are required to make and maintain deposits to the Clearing Fund on an ongoing basis. Netting Members that are Sponsoring Members are required to make separate deposits to the Clearing Fund for their Netting Member activity and Sponsoring Member activity. These deposits are designed to limit the risk exposures posed by Netting Members' unsettled portfilio and to quickly adjust and collect additional deposits as needed to cover those risks. At least twice daily, FICC-GSD calculates and collects a Netting Member's Required Fund Deposits, which will vary on its trading activity. Required Fund Deposits may be satisfied by depositing either cash, or a combination of cash and eligible securities (subject to haircuts and concentration limits). List of eligible securities and respective haircuts are available on the DTCC.com website at: https://www.dtcc.com/-/media/Files/Downloads/legal/risk-management/GSD-Haircut-Schedule-Current.pdf

WHERE CAN I LEARN MORE ABOUT THE CLEARING FUND METHODOLOGY AND DOES FICC OFFER TOOLS FOR ESTIMATING CLEARING FUND REQUIREMENTS?

The Clearing Fund Methodology for the Government Securities Division of FICC is available on the FICC US Treasury microsite: https://www.dtcc.com/-/media/Files/Downloads/legal/policy-and-compliance/GSD-Clearing-Fund-Methodology-Overview-October-2023.pdf. This document contains descriptions and formulas for components of the Clearing Fund.

The VaR charge is the latest component at FICC, and FICC makes available for Netting Members a Value-at-Risk (VaR) calculator that can be used to estimate their Clearing Fund requirements based on proposed changes (I.e., Addition or substraction of positions) to their FICC-cleared portfolios. By using the VaR calculator, or a separate in-house implementation of sensitivity VaR using the provided parameters under the methodology document, it is possible to replicate the calculation and approximate margin requirements at FICC.

For market participants that do not have access to the VaR calculator, a schedule of indicative haircut and risk factor rates is available to approximate the VaR charge: https://www.dtcc.com/-/media/Files/Downloads/Microsites/Treasury-Clearing/Schedule_of_Indicative.pdf.

IS INTRADAY MARGINING REALLY NECESSARY TO REDUCE RISK?

Yes. Intraday margining limits FICC's exposures to intraday market movements, trading activity and settlements. In the absence of intraday margining, FICC and its membership could be exposed to market risk until the next regular margin collection is completed.

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

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

WHY ARE FICC'S MEMBERSHIP STANDARDS SO RIGOROUS?

Consistent with its regulatory obligations, FICC has established clear and objective membership requirements for each category of membership. Its minimum membership standards are designed to provide fair and open access for firms seeking membership and are robust to allow FICC to manage the material risks presented from membership activities. FICC has taken steps, wherever possible, to facilitate the ability of different types of market participants to access clearing at FICC through a wide array of direct and indirect participation models. The different access models allow market participants to tailor their clearing arrangements at FICC to their specific business and regulatory needs.

WHAT DOES FICC DO TO ADDRESS PROCYCLICALITY CONCERNS?

In times of stress, market volatility may cause the Clearing Fund to increase, which is inherent in the risk management process of FICC. However, consistent with the anti-procyclicality tools recommended under the European Market Infrastructure Regulation, FICC addresses the procyclicality of its value-at-risk (VaR) charge formula 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, including 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.

WHO IS RESPONSIBLE FOR DETERMINING THE PROFIT AND LOSS DURING A CLOSE-OUT BY FICC AT A DEFAULTED MEMBER?

Ficc's rules provide for FICC to calculate the amount owing on a close-out member as FICC's profits or losses in conducting such close-out. Those profits or losses would be at FICC's (i.e., the non-defaulting party's) side of the market. The procedures FICC may take after it has ceased to act for a defaulting member, including the process for closing out unsettled, open positions of the defaulting Member, are provided for and described in rule 22A of the GSD rules, available on the DTCC.com website at: https://www.dtcc.com/-/media/Files/Downloads/legal/rules/ficc_gov_rules.pdf.

FICC's default procedures are also described in public disclosures (see "Principle 13: Participant-default rules and procedures; CCAS 17Ad-22(e)(13)") available on the DTCC.com website at: https://www.dtcc.com/-/media/Files/Downloads/legal/policy-and-compliance/FICC_Disclosure_Framework.pdf.