

DTCC

FICC Client Clearing Netting & Settlement

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: April 2024

DEPARTMENT: FICC Product Management

01

Introduction

Pages 3-6

02

Scenario 1: Settlement of a “Done-With” Client Cash Transaction & Forward Start Repo between Clients

Pages 7-13

03

Scenario 2: Settlement of a “Done-With” Client Cash Transaction & Forward Start Repo

Pages 14-20

04

Scenario 3: Settlement of a “Done-Away” Client Cash Transaction & Forward Start Repo

Pages 21-27

05

Scenario 4: Settlement of a “Done-With” Client Cash Transaction & SDS Repo

Pages 28-34

- ▶ FICC's multilateral netting capabilities offer significant settlement efficiency benefits to GSD Netting Members.
- ▶ These netting benefits are extended to GSD Netting Member firms permitted to submit transactions to FICC on behalf of their clients, including:
 - ▶ Sponsoring Members, and;
 - ▶ Agent Clearing Members*.
- ▶ FICC makes available this material to provide clarity regarding its multilateral netting capabilities and where settlement efficiencies can be maximized for client activity, depending on the manner in which trade activity is executed by clients and submitted to FICC by Sponsoring Members or Agent Clearing Members.

**FICC has proposed rule changes to address the SEC's U.S. Treasury clearing rules and these proposed changes include modifications to existing terminology. These proposed changes are subject to the review and approval of proposed rule change filings by the SEC.*

- ▶ This material is a companion to FICC's Client Clearing Capabilities for Treasury Market Activity presentation, and assumes the reader is familiar with FICC's client clearing capabilities along with their associated trade execution and trade booking models.
 - ▶ Readers who are not familiar with FICC's client clearing models should refer to [FICC's Client Clearing Capabilities](#) presentation made available on DTCC's [US Treasury Clearing](#) website prior to reviewing this material.

Introduction – Timeline of Events for Scenarios 1 - 3

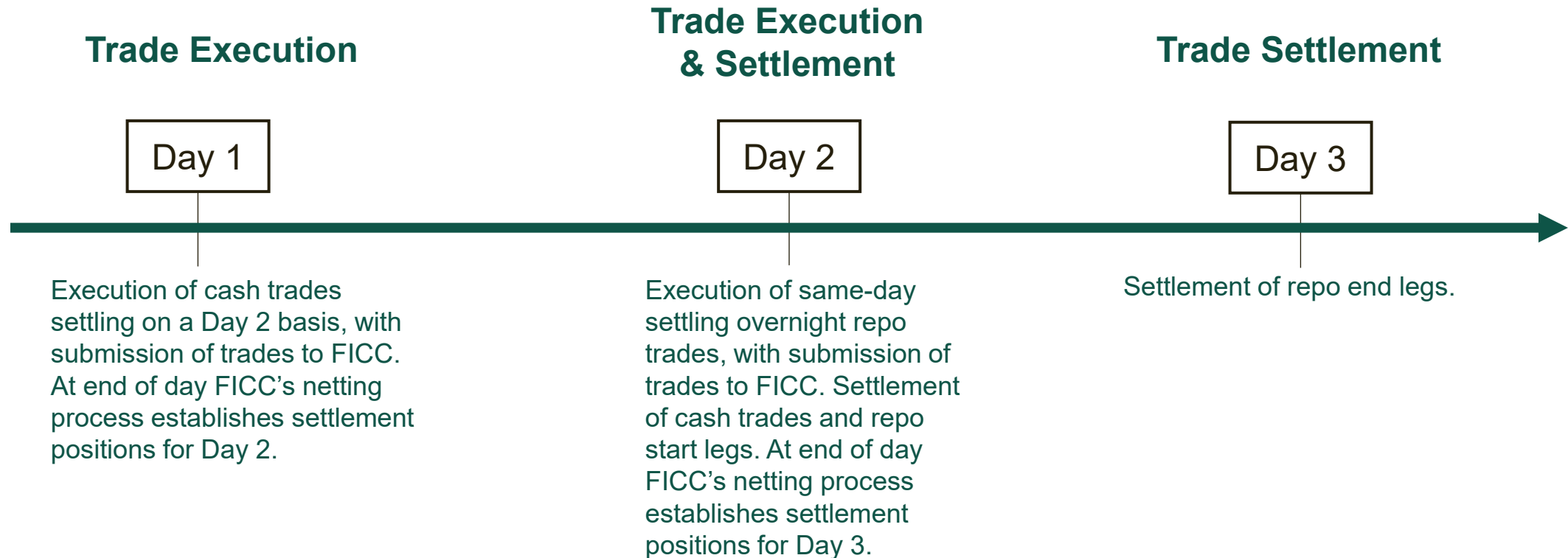
Scenarios 1 – 3 provide the netting benefits and settlement efficiencies derived from clients executing cash trades and forward start repos on the same business date, Day 1.



Note: On the business date prior to each settlement date, FICC's DVP netting process includes all novated cash and repo transaction activity set to settle on that settlement date to establish net settlement positions for a given Netting Member of FICC. A buy trade, reverse repo start leg, or a repo end leg results in a long settlement position for a Netting Member (i.e., Netting Member is due to receive securities from FICC). A sell trade, repo start leg, or a reverse repo end leg results in a short settlement position (i.e., Netting Member is due to deliver securities to FICC).

Introduction – Timeline of Events for Scenarios 4

Scenario 4 provides the netting benefits and settlement efficiencies derived from clients executing cash trades on Day 1 and same-day starting (SDS) repos on Day 2.



Note: Although this scenario illustrates “done-with” client transactions, the netting benefits and settlement efficiencies derived from executing a cash transaction and an SDS repo on the subsequent business date remain the same for client activity executed and submitted to FICC for clearing on a “done-away” basis.

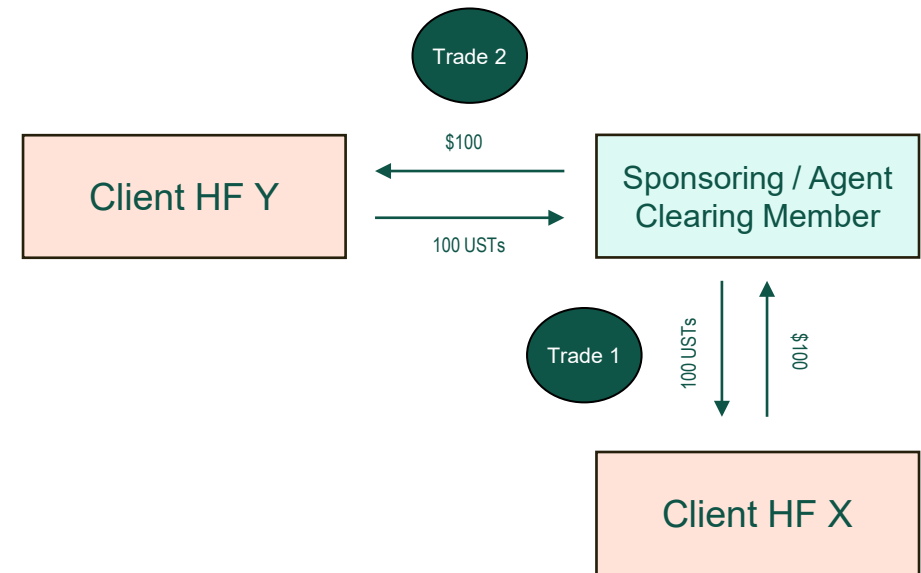


**Scenario 1: Settlement of a
“Done-With” Client Cash
Transaction & Forward Start
Repo between Clients**

Scenario 1: “Done-With” Client Cash Trade Execution - Day 1 Execution/Day 2 Settlement

Trade 1: Client Hedge Fund (HF) X executes cash trade purchasing securities from its Sponsoring / Agent Clearing Member. The trade is executed on Day 1, for settlement on Day 2.

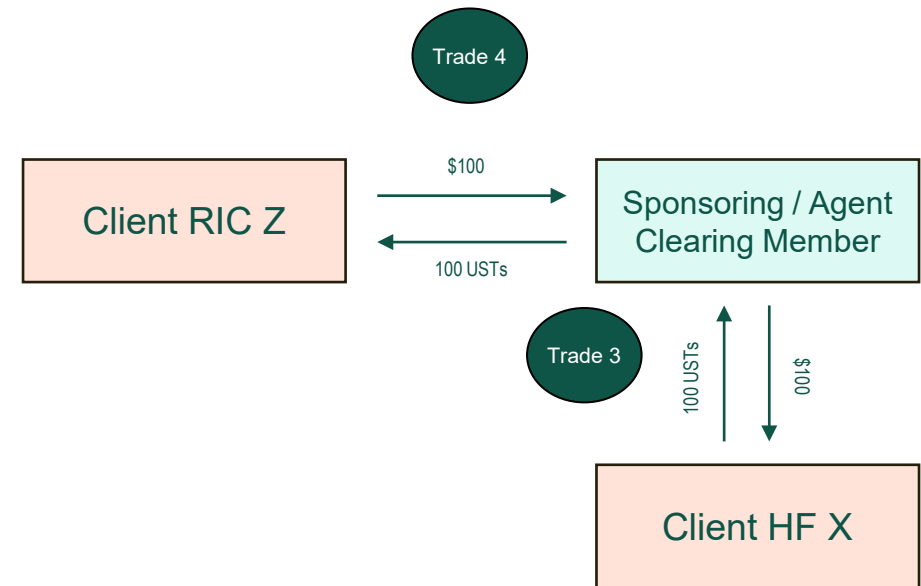
Trade 2: The Sponsoring / Agent Clearing Member purchases securities by executing a second cash trade versus their client HF Y. The trade is executed on Day 1, for settlement on Day 2.



Scenario 1: “Done-With” Client Forward Start Repo Execution – Day 1 Execution/Day 2 Start

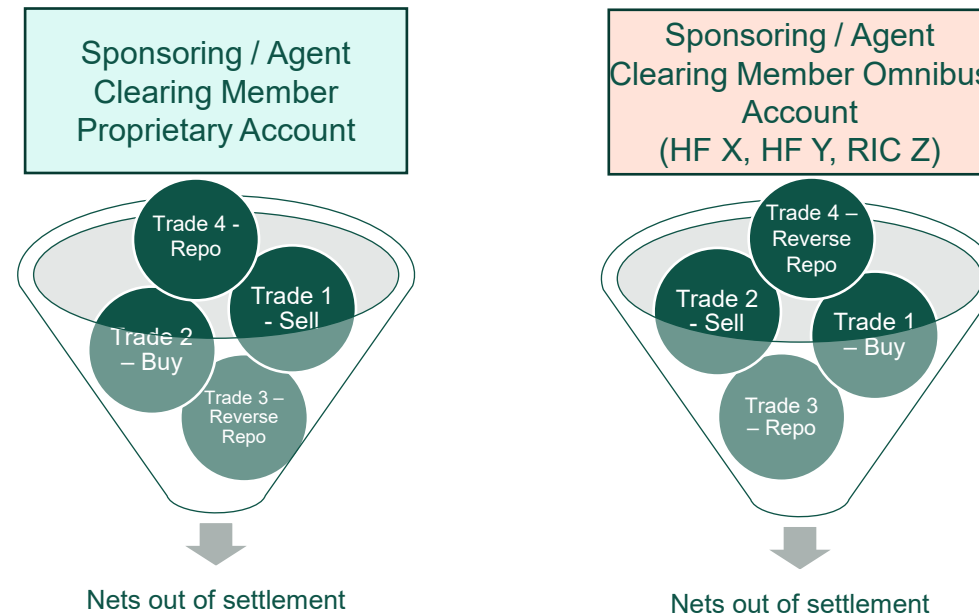
Trade 3: On the same business date as cash trade execution date (Day 1), client HF X executes a forward start repo trade with its Sponsoring / Agent Clearing Member to finance the purchased position, with the repo start leg settling on Day 2 and the repo end leg settling on Day 3.

Trade 4: The Sponsoring / Agent Clearing Member borrows cash through an offsetting forward start repo trade executed versus client Registered Investment Company (RIC) Z, with the repo start leg settling on Day 2 and the repo end leg settling on Day 3.



Scenario 1: Cash Trade & Repo Start Leg Settlement with FICC – Day 2

At end of day on Day 1, FICC’s netting process will include all trade activity with a settlement date of Day 2 to establish net settlement positions for all of the counterparties versus FICC on Day 2.



On settlement date Day 2, the Sponsoring / Agent Clearing Member Proprietary Account and Omnibus Account net out of settlement with FICC. As occurs today, the Sponsoring / Agent Clearing Member, acting as processing agent for their clients, settles the transactions directly versus their clients.

Scenario 1: Detailed View of FICC's Netting Process for Settlement Date Day 2

Sponsoring / Agent
Clearing Member
Proprietary Account

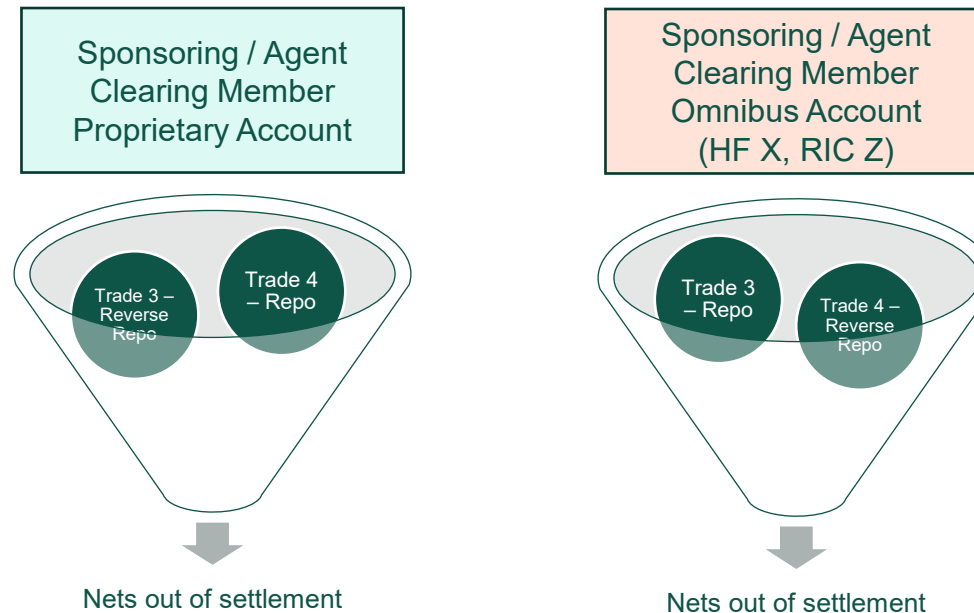
Trades	Settlement Position
Trade 1: Sell	-100
Trade 2: Buy	100
Trade 3: Reverse Repo (Start Leg)	100
Trade 4: Repo (Start Leg)	-100
Net Settlement Position vs FICC	0

Sponsoring / Agent
Clearing Member
Omnibus Account
(HF X, HF Y, RIC Z)

Trades	Settlement Position
Trade 1: Buy	100
Trade 2: Sell	-100
Trade 3: Repo (Start Leg)	-100
Trade 4: Reverse Repo (Start Leg)	100
Net Settlement Position vs FICC	0

Scenario 1: Repo End Leg Settlement with FICC – Day 3

At end of day on Day 2, FICC’s netting process will include all trade activity with a settlement date of Day 3 to establish net settlement positions for all of the counterparties versus FICC on Day 3.



On settlement date Day 3, the Sponsoring / Agent Clearing Member Proprietary Account and Omnibus Account net out of settlement with FICC. As occurs today, the Sponsoring / Agent Clearing Member, acting as processing agent for their clients, settles the transactions directly versus their clients.

Scenario 1: Detailed View of FICC's Netting Process for Settlement Date Day 3

Sponsoring / Agent
Clearing Member
Proprietary Account

Trades	Settlement Position
Trade 3: Reverse Repo (End Leg)	-100
Trade 4: Repo (End Leg)	100
Net Settlement Position vs FICC	0

Sponsoring / Agent
Clearing Member
Omnibus Account
(HF X, RIC Z)

Trades	Settlement Position
Trade 3: Repo (End Leg)	100
Trade 4: Reverse Repo (End Leg)	-100
Net Settlement Position vs FICC	0

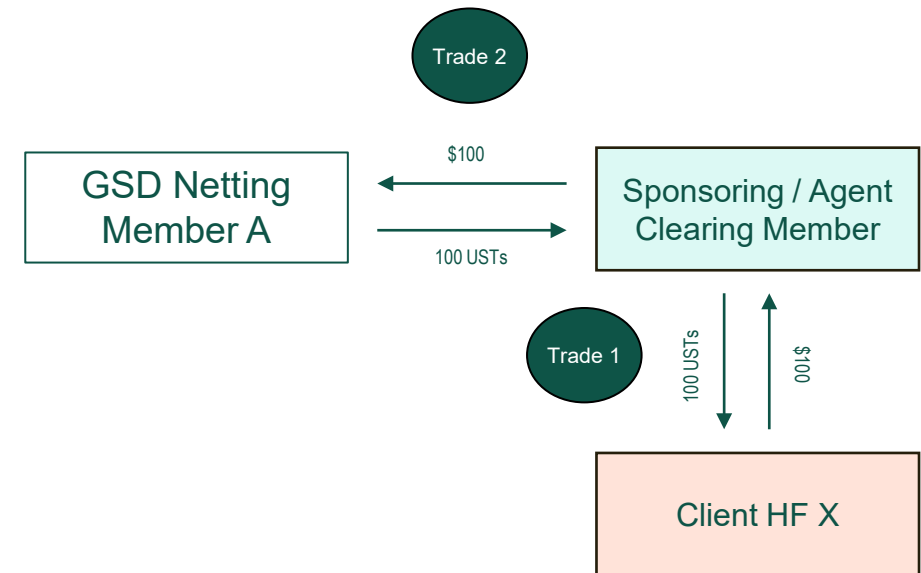


**Scenario 2: Settlement of a
“Done-With” Client Cash
Transaction & Forward Start
Repo**

Scenario 2: “Done-With” Client Cash Trade Execution – Day 1 Execution/Day 2 Settlement

Trade 1: Client HF X executes cash trade purchasing securities from its Sponsoring / Agent Clearing Member. The trade is executed on Day 1, for settlement on Day 2.

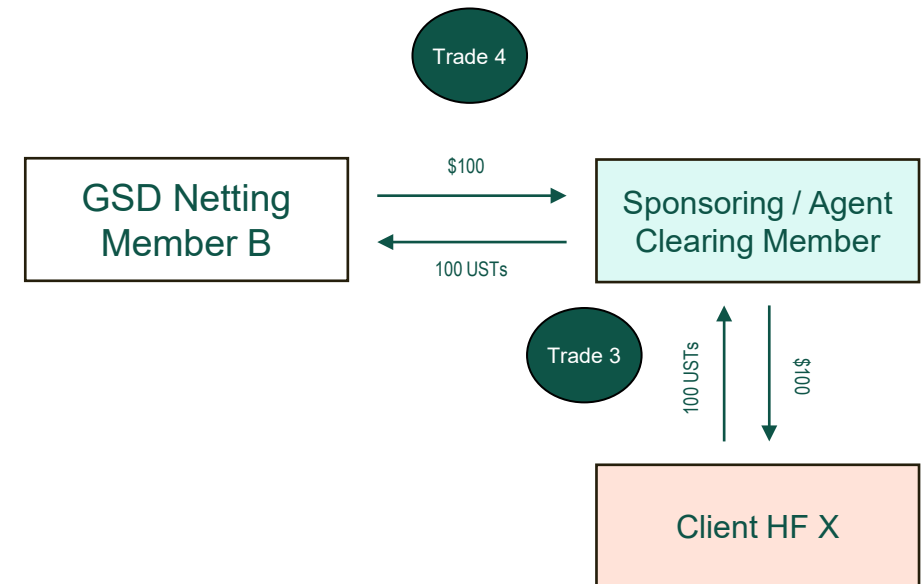
Trade 2: The Sponsoring / Agent Clearing Member purchases securities by executing a second cash trade versus GSD Netting Member A. The trade is executed on Day 1, for settlement on Day 2.



Scenario 2: “Done-With” Client Forward Start Repo Execution – Day 1 Execution/Day 2 Start

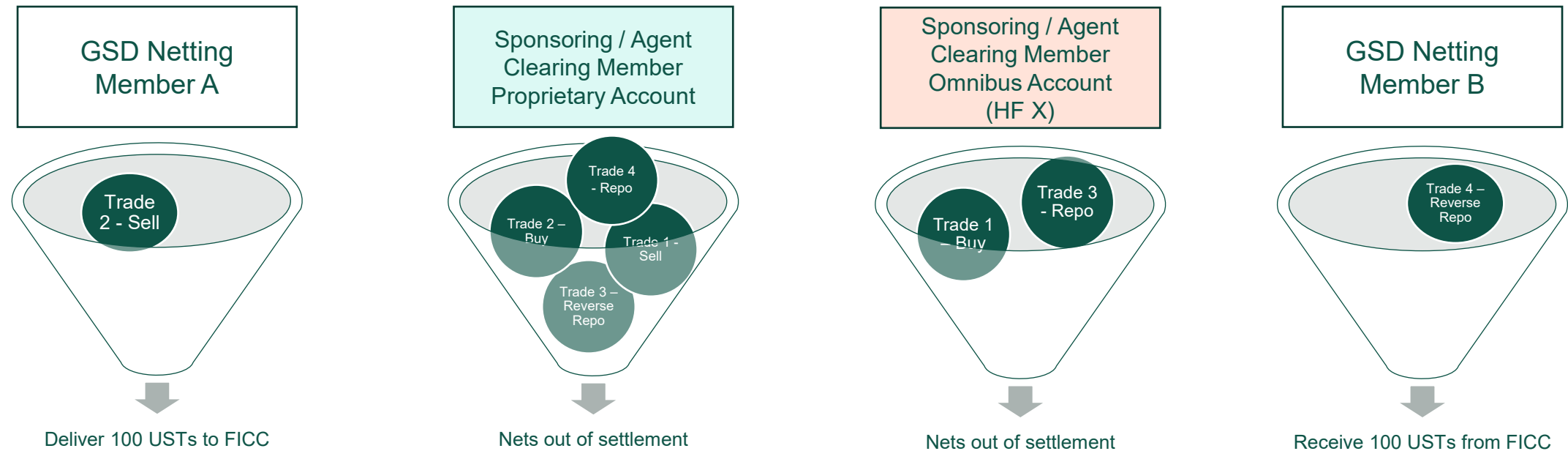
Trade 3: On cash trade execution date (Day 1), client HF X executes a forward start repo trade with its Sponsoring / Agent Clearing Member to finance the purchased position, with the repo start leg settling on Day 2 and the repo end leg settling on Day 3.

Trade 4: The Sponsoring / Agent Clearing Member borrows cash through an offsetting forward start repo trade executed versus GSD Netting Member B, with the repo start leg settling on Day 2 and the repo end leg settling on Day 3.



Scenario 2: Cash Trade & Repo Start Leg Settlement with FICC – Day 2

At end of day on Day 1, FICC’s netting process will include all trade activity with a settlement date of Day 2 to establish net settlement positions for all of the counterparties versus FICC on Day 2.



On settlement date Day 2, GSD Netting Member A will deliver 100 USTs to FICC and FICC will re-deliver 100 USTs to GSD Netting Member B.

Scenario 2: Detailed View of FICC's Netting Process for Settlement Date Day 2

GSD Netting
Member A

Sponsoring / Agent
Clearing Member
Proprietary Account

Sponsoring / Agent
Clearing Member
Omnibus Account
(HF X)

GSD Netting
Member B

Trades	Settlement Position
Trade 2: Sell	-100
Net Settlement Position vs FICC	-100

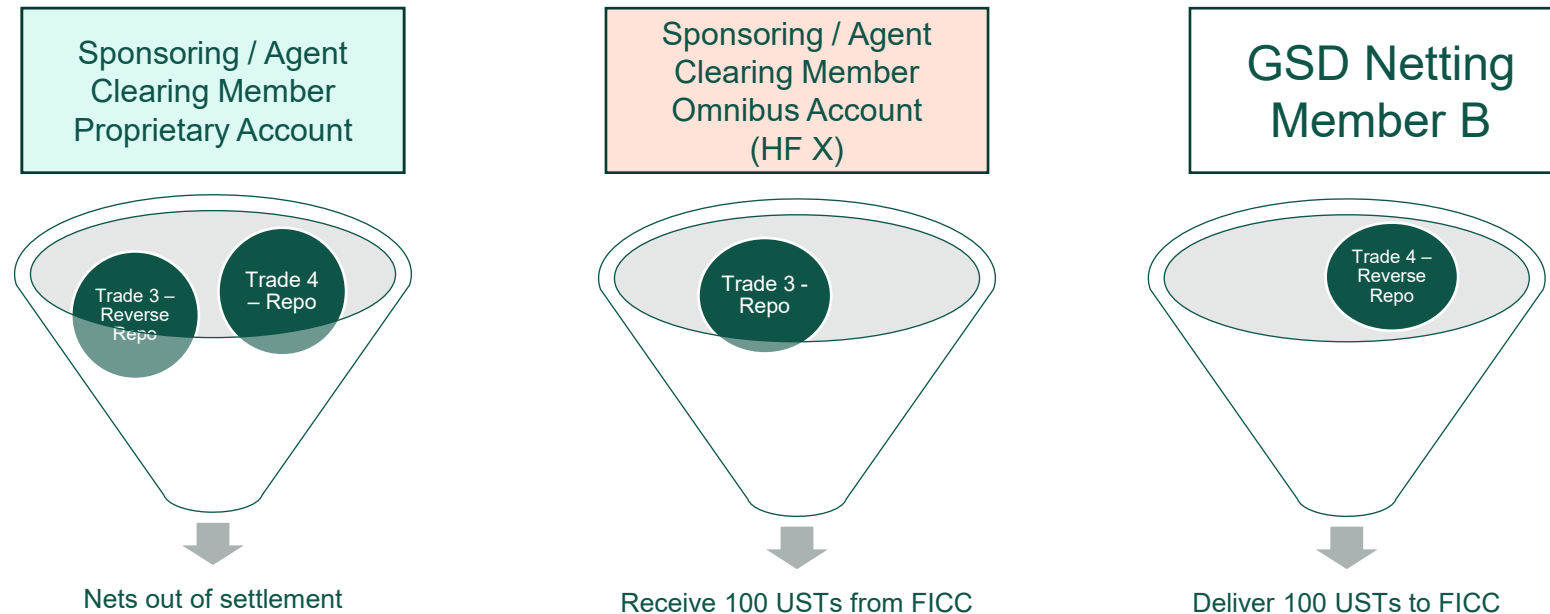
Trades	Settlement Position
Trade 1: Sell	-100
Trade 2: Buy	100
Trade 3: Reverse Repo (Start Leg)	100
Trade 4: Repo (Start Leg)	-100
Net Settlement Position vs FICC	0

Trades	Settlement Position
Trade 1: Buy	100
Trade 3: Repo (Start Leg)	-100
Net Settlement Position vs FICC	0

Trades	Settlement Position
Trade 4: Reverse Repo (Start Leg)	100
Net Settlement Position vs FICC	100

Scenario 2: Repo End Leg Settlement with FICC – Day 3

At end of day on Day 2, FICC’s netting process will include all trade activity with a settlement date of Day 3 to establish net settlement positions for all of the counterparties versus FICC on Day 3.



On settlement date Day 3, GSD Netting Member B will deliver 100 USTs to FICC and FICC will re-deliver 100 USTs to the Sponsoring / Agent Clearing Member Omnibus Account.

Scenario 2: Detailed View of FICC's Netting Process for Settlement Date Day 3

Sponsoring / Agent
Clearing Member
Proprietary Account


Sponsoring / Agent
Clearing Member
Omnibus Account (HF X)

GSD Netting
Member B

Trades	Settlement Position
Trade 3: Reverse Repo (End Leg)	-100
Trade 4: Repo (End Leg)	100
Net Settlement Position vs FICC	0

Trades	Settlement Position
Trade 3: Repo (End Leg)	100
Net Settlement Position vs FICC	100

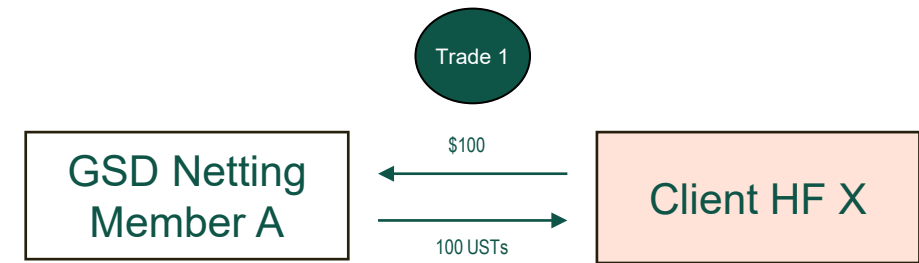
Trades	Settlement Position
Trade 4: Reverse Repo (End Leg)	-100
Net Settlement Position vs FICC	-100



**Scenario 3: Settlement of a
“Done-Away” Client Cash
Transaction & Forward Start
Repo**

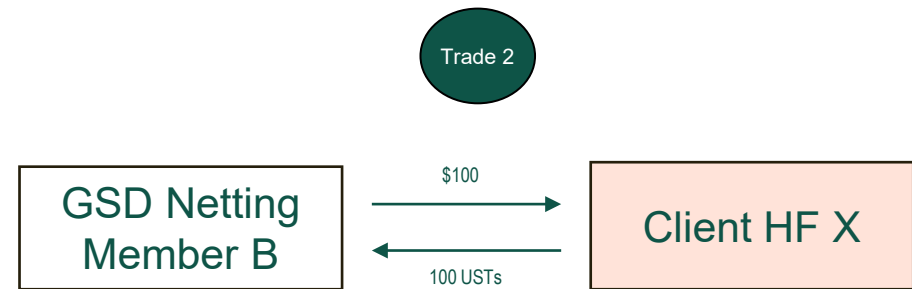
Scenario 3: “Done-Away” Client Cash Trade Execution – Day 1 Execution/Day 2 Settlement

Trade 1: Client HF X executes cash trade purchasing securities from GSD Netting Member A, which is submitted for clearing by the client’s Sponsoring / Agent Clearing Member. The trade is executed on Day 1, for settlement on Day 2.



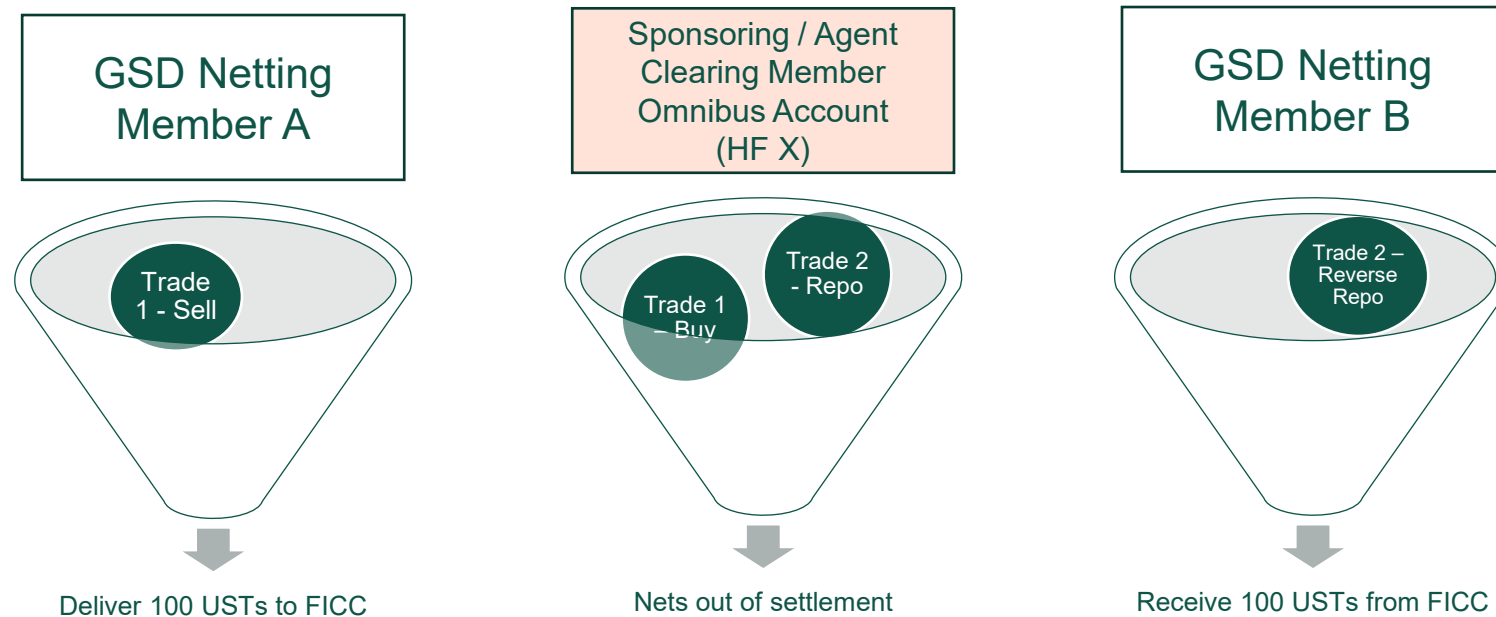
Scenario 3: “Done-Away” Forward Start Repo Execution – Day 1 Execution/Day 2 Start ²³

Trade 2: On cash trade execution date (Day 1), client HF X executes a forward start repo trade with GSD Netting Member B to finance the purchased position, with the repo start leg settling on Day 2 and the repo end leg settling on Day 3. The trade is submitted for clearing by the client’s Sponsoring / Agent Clearing Member.



Scenario 3: Cash Trade & Repo Start Leg Settlement with FICC – Day 2

At end of day on Day 1, FICC’s netting process will include all trade activity with a settlement date of Day 2 to establish net settlement positions for all of the counterparties versus FICC on Day 2.



On settlement date Day 2, GSD Netting Member A will deliver 100 USTs to FICC and FICC will re-deliver 100 USTs to GSD Netting Member B.

Scenario 3: Detailed View of FICC's Netting Process for Settlement Date Day 2

GSD Netting
Member A

Sponsoring / Agent
Clearing Member
Omnibus Account (HF X)

GSD Netting
Member B

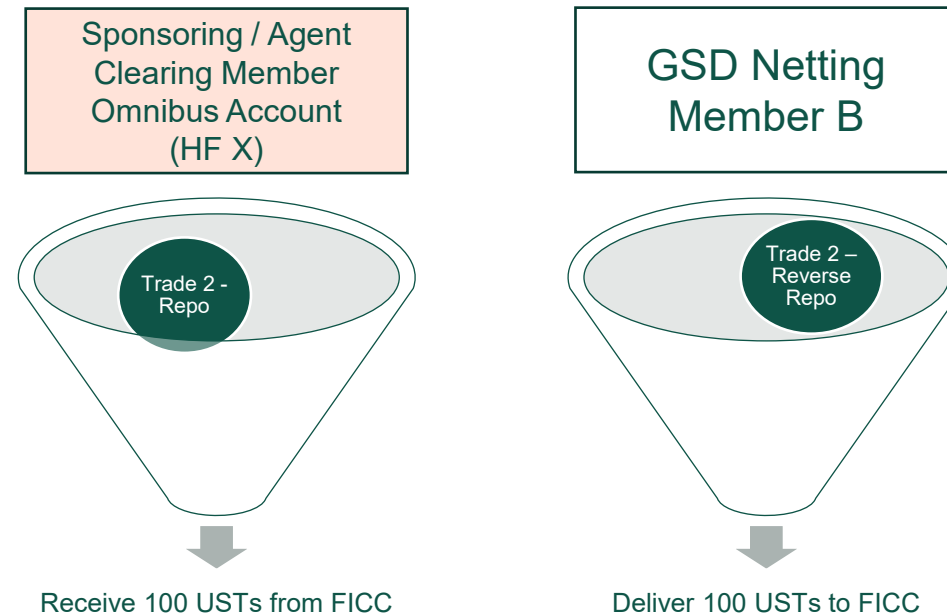
Trades	Settlement Position
Trade 1: Sell	-100
Net Settlement Position vs FICC	-100

Trades	Settlement Position
Trade 1: Buy	100
Trade 2: Repo (Start Leg)	-100
Net Settlement Position vs FICC	0

Trades	Settlement Position
Trade 4: Reverse Repo (Start Leg)	100
Net Settlement Position vs FICC	100

Scenario 3: Repo End Leg Settlement with FICC – Day 3

At end of day on Day 2, FICC's netting process will include all trade activity with a settlement date of Day 3 to establish net settlement positions for all of the counterparties versus FICC on Day 3.



On settlement date Day 3, GSD Netting Member B will deliver 100 USTs to FICC and FICC will re-deliver 100 USTs to the Sponsoring / Agent Clearing Member Omnibus Account.


Scenario 1: Detailed View of FICC's Netting Process for Settlement Date Day 3

Sponsoring / Agent
Clearing Member
Omnibus Account
(HF X)

GSD Netting
Member B

Trades	Settlement Position
Trade 2: Repo (End Leg)	100
Net Settlement Position vs FICC	100

Trades	Settlement Position
Trade 2: Reverse Repo (End Leg)	-100
Net Settlement Position vs FICC	-100

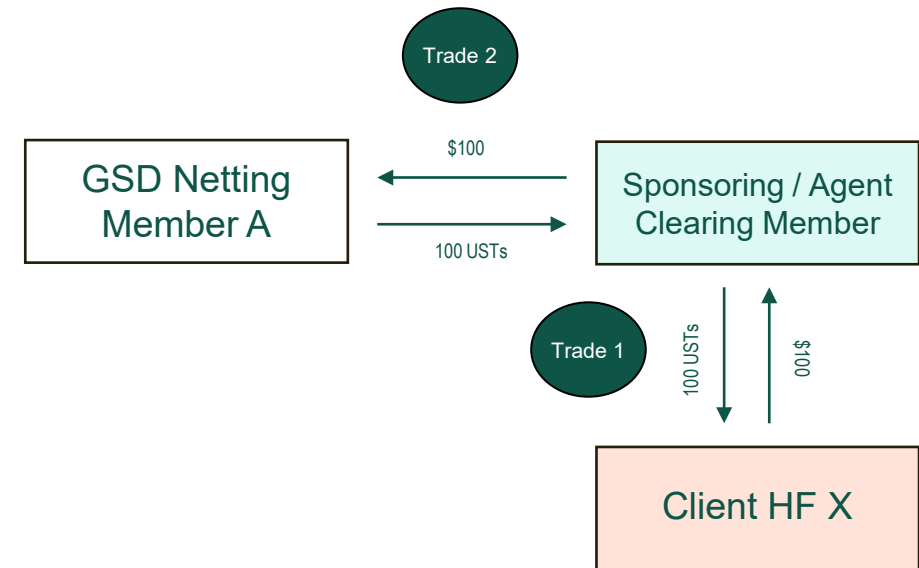


Scenario 4: Settlement of a “Done-With” Client Cash Transaction & SDS Repo

Scenario 4: “Done-With” Client Cash Trade Execution – Day 1 Execution/Day 2 Settlement

Trade 1: Client HF X executes cash trade purchasing securities from its Sponsoring / Agent Clearing Member. The trade is executed on Day 1, for settlement on Day 2.

Trade 2: The Sponsoring / Agent Clearing Member purchases securities by executing a second cash trade versus GSD Netting Member A. The trade is executed on Day 1, for settlement on Day 2.

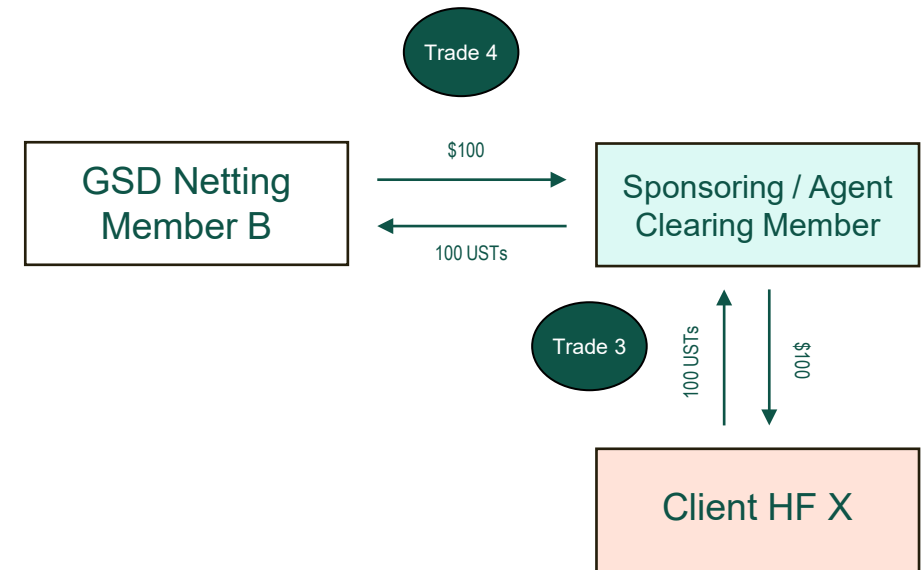


Note: Although this scenario illustrates “done-with” client transactions, the netting benefits and settlement efficiencies derived from executing a cash transaction and an SDS repo on the subsequent business date remain the same for client activity executed and submitted to FICC for clearing on a “done-away” basis.

Scenario 4: “Done-With” Client SDS Repo Execution – Day 2 Execution & Start

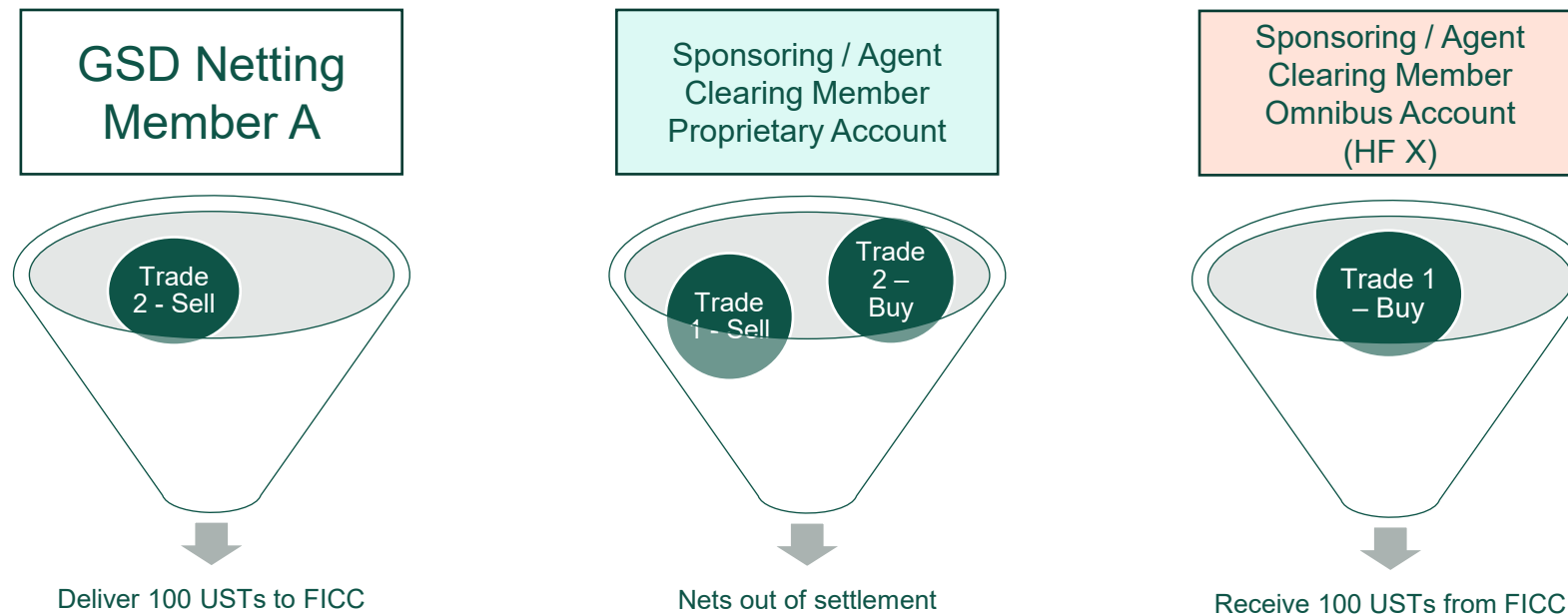
Trade 3: On cash trade settlement date (Day 2), client HF X executes a same-day settling (SDS) repo trade with its Sponsoring / Agent Clearing Member to finance the purchased position, with the repo start leg settling on Day 2 and the repo end leg settling on Day 3.

Trade 4: The Sponsoring / Agent Clearing Member borrows cash through an offsetting SDS repo trade executed versus GSD Netting Member B, with the repo start leg settling on Day 2 and the repo end leg settling on Day 3.



Scenario 4: Cash Trade & Repo Start Leg Settlement with FICC – Day 2

At end of day on Day 1, FICC’s netting process will include all trade activity with a settlement date of Day 2 to establish net settlement positions for the counterparties versus FICC on Day 2. As the SDS repo trades are executed and submitted to FICC on Day 2, the repo start legs settling on Day 2 are not included in the netting process and are settled on a trade-for-trade basis.



On settlement date Day 2, GSD Netting Member A will deliver 100 USTs to FICC and FICC will re-deliver 100 USTs to the Sponsoring / Agent Clearing Member Omnibus Account to settle the cash trade. The SDS repo start legs are settled separate to the cash transactions.

Note: The start leg of a “Done-With” Sponsored SDS repo transaction is not novated nor settles through FICC.

Scenario 4: Detailed View of FICC's Netting Process for Settlement Date Day 2

GSD Netting
Member A

Sponsoring / Agent
Clearing Member
Proprietary Account

Sponsoring / Agent
Clearing Member
Omnibus Account (HF X)

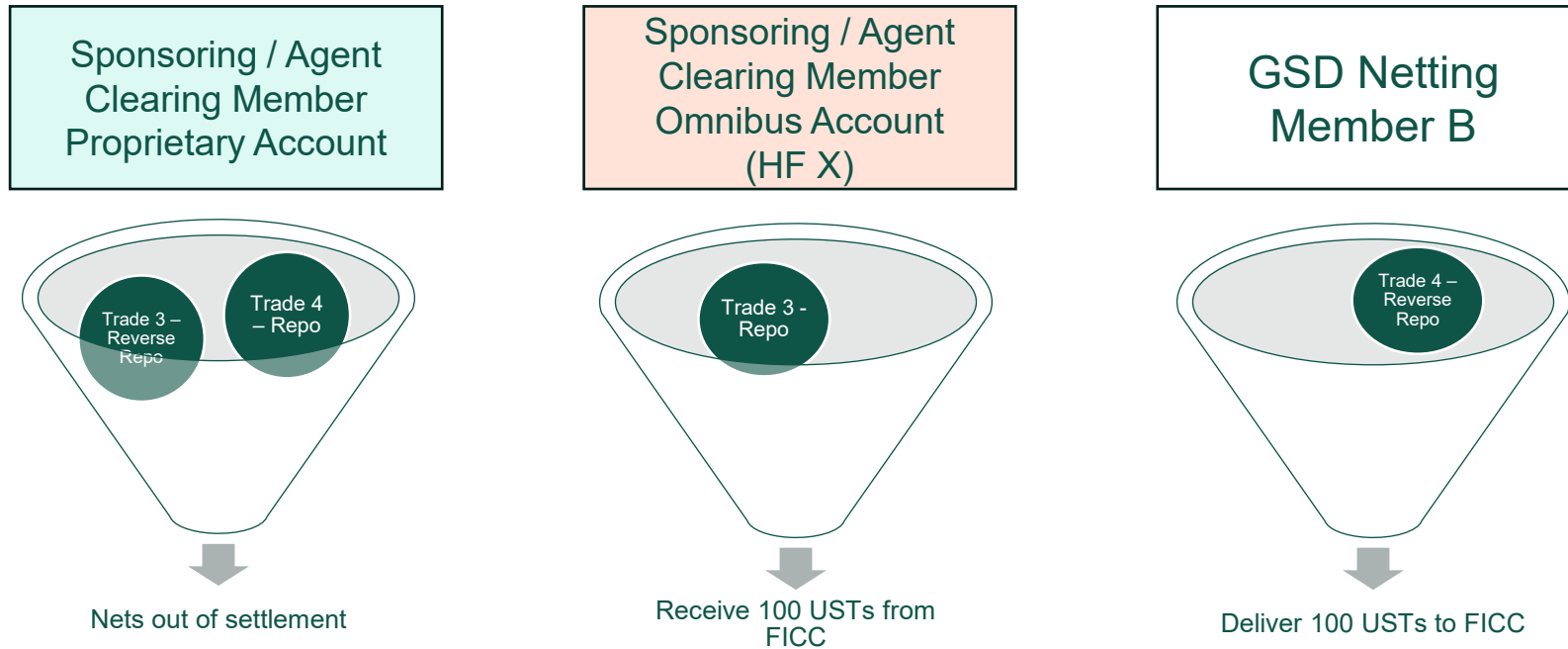
Trades	Settlement Position
Trade 2: Sell	-100
Net Settlement Position vs FICC	-100

Trades	Settlement Position
Trade 1: Sell	-100
Trade 2: Buy	100
Net Settlement Position vs FICC	0

Trades	Settlement Position
Trade 1: Buy	100
Net Settlement Position vs FICC	100

Scenario 4: Repo End Leg Settlement with FICC – Day 3

At end of day on Day 2, FICC’s netting process will include all trade activity with a settlement date of Day 3 to establish net settlement positions for all of the counterparties versus FICC on Day 3.



On settlement date Day 3, GSD Netting Member B will deliver 100 USTs to FICC and FICC will re-deliver 100 USTs to the Sponsoring Member / Agent Clearing Member Omnibus Account.

Scenario 4: Detailed View of FICC's Netting Process for Settlement Date Day 3

Sponsoring / Agent
Clearing Member
Proprietary Account

Sponsoring / Agent
Clearing Member
Omnibus Account
(HF X)

GSD Netting
Member B

Trades	Settlement Position
Trade 3: Reverse Repo (End Leg)	-100
Trade 4: Repo (End Leg)	100
Net Settlement Position vs FICC	0

Trades	Settlement Position
Trade 3: Repo (End Leg)	100
Net Settlement Position vs FICC	100

Trades	Settlement Position
Trade 4: Reverse Repo (End Leg)	-100
Net Settlement Position vs FICC	-100



Thank You

The image features a central white arrow pointing to the right, which contains the text "DTCC" in a bold, dark green, sans-serif font. The background is composed of several geometric shapes: a light teal triangle on the left, a large orange triangle on the right, and a white triangle at the top right. A thin gold line forms a triangle above the arrow.

DTCC