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GSD Segregated Accounts and Margin

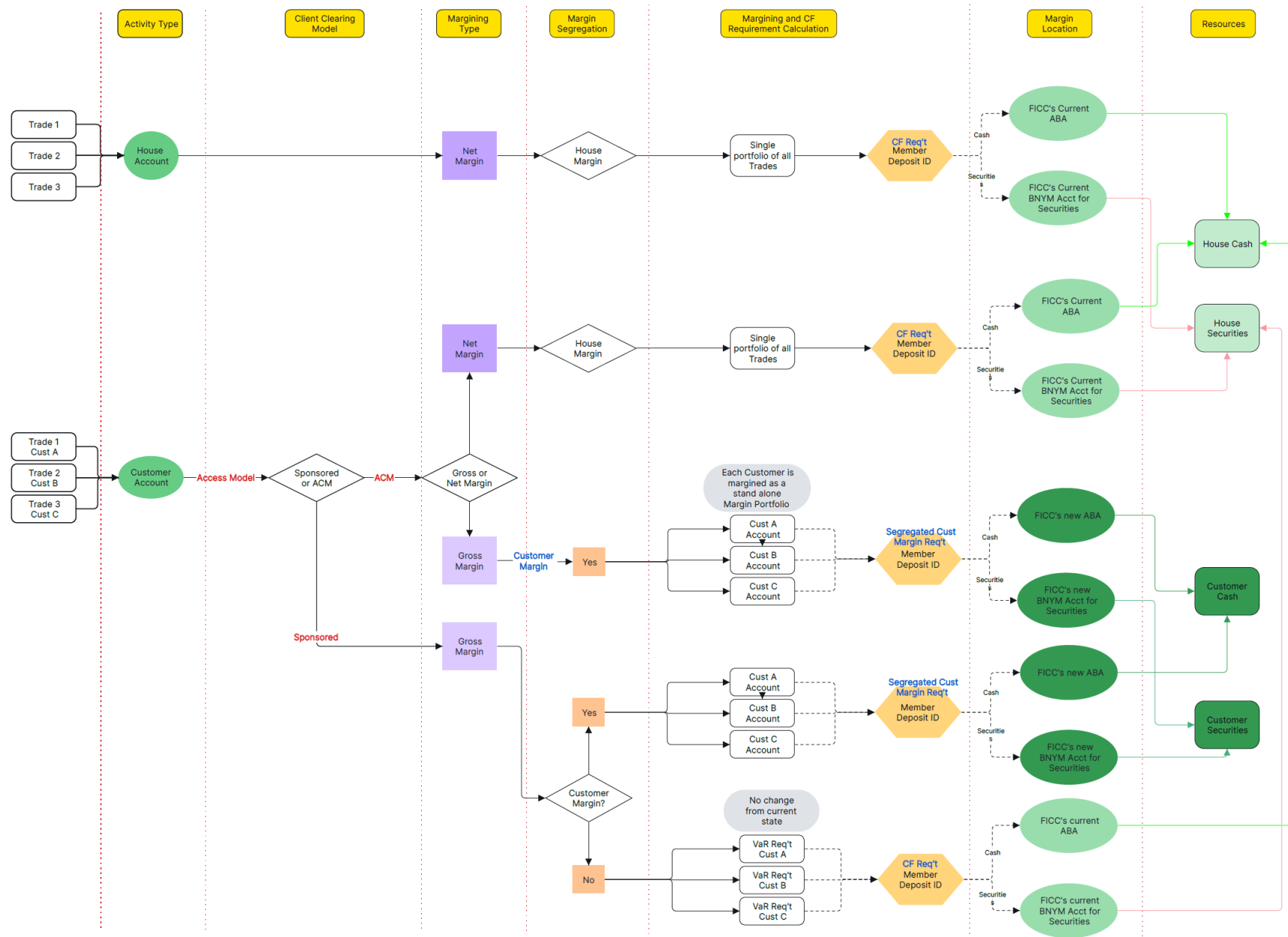
FICC Account Structure and Risk Management of Segregated Indirect Participant Activity

DATE: July 20, 2024

The proposals described in this presentation have been filed with the SEC and, as with any proposals filed by any registered clearing agency, are currently subject to a public comment period. We welcome engaging with you on the proposals and encourage all questions, comments and feedback. However, any written submission to us could potentially be deemed a public comment because of generally applicable regulatory obligations around proposed rule changes by registered clearing agencies. If this type of situation comes up, we will engage in further discussions with you to ensure we understand your intent and handle any written submissions appropriately.

Overview of Accounts and Margin Calculation, Collection and Segregation

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Summary of Proposed Rule Changes

1. Account Structure

Clarify GSD account structure by identifying the different types of accounts Netting Members may or are required to use for different activity and different services.

Account Structure Proposed Rule Changes

<i>Rule 1 (Definitions)</i>	<ul style="list-style-type: none">• New defined terms and updated existing defined terms for different Accounts.• Revised descriptions to clarify that these are position-recording accounts.
<i>New Rule 2B (Accounts)</i>	<p>New Rule 2B describes different types of Accounts and rules around which Accounts should be used for different activity and different services:</p> <ul style="list-style-type: none">• Proprietary Accounts (Dealer Accounts and Broker Accounts)• Indirect Participant Accounts (Sponsoring Member Omnibus Accounts and Agent Clearing Member Omnibus Accounts)
<i>Rule 3 (Ongoing Membership Requirements)</i>	<ul style="list-style-type: none">• Eliminate concept of Non-IDB Repo Brokers and provide that only IDB Netting Members can submit brokered activity and must submit that activity through Broker Accounts.• Simplify requirements for IDB Netting Members and remove FICC's affirmative monitoring of this activity.

Summary of Proposed Rule Changes

2. Segregating Indirect Participant Margin in a Manner that Comports with the 15c3-3 Debit Requirements

Describe how FICC will segregate customer margin in a manner that satisfies the requirements under Note H of amended SEC Rule 15c3-3.

Segregated Indirect Participant Accounts Proposed Rule Changes

<i>Rule 1 (Definitions)</i>	New defined terms for segregated indirect participant margin and accounts: “Segregated Indirect Participant”, “Segregated Indirect Participant Account”, “Segregated Customer Margin” and “Segregated Customer Margin Requirement”.
<i>New Rule 2B (Accounts)</i>	Provides that Indirect Participant Accounts may be designated by Netting Members to be segregated and describes implications of this designation.
<i>Rule 4 (Clearing Fund)</i>	<ul style="list-style-type: none">• Deposits of Segregated Customer Margin are segregated and FICC would have limited use of those funds.• Netting Member’s Required Fund Deposit would have separate portions for separately activity; a Netting Member’s Required Fund Deposit (which may be used for broad purposes) is separated from its "Segregated Customer Margin Requirement" (which may only be used for customer positions).• Section 3 (Form of Deposit), Section 4 (Liens), Section 5 (Use of Clearing Fund and Segregated Customer Margin) are updated to address application of these sections to Segregated Customer Margin.
<i>New Margin Component Schedule</i>	<ul style="list-style-type: none">• Describes the calculation of the Segregated Customer Margin Requirement.• Describes each applicable margin component to specify how each would be calculated for a Segregated Indirect Participant.

Summary of Proposed Rule Changes

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3. Enhance Disclosures of Margin Components and Clearing Fund Methodology

Move descriptions of each margin component and Clearing Fund methodology to new Margin Component Schedule and make certain market risk management enhancements.

Margin Component Schedule and Risk Management Enhancement Rule Changes	
<i>Rule 1 (Definitions)</i>	<ul style="list-style-type: none">All defined terms of margin components are moved from Rule 1 (Definitions) into Section 5 of the Margin Component Schedule.
<i>Rule 4 (Clearing Fund)</i>	<ul style="list-style-type: none">Description of the calculation of Required Fund Deposit and other margin requirements are moved out of Rule 4 and into Margin Component Schedule.
<i>New Margin Component Schedule</i>	<ul style="list-style-type: none">Sections 2 and 3 lay out the methodology for calculating each portion of Required Fund Deposit and Segregated Customer Margin Requirement.Section 4 consolidates the description of all additional charges and possible increases to required deposits.Section 5 describes the methodology for calculating each component of the Clearing Fund.GSD Excess Capital Premium is conformed to recent changes made to NSCC Excess Capital Premium.
<i>Rule 1 (Definitions) – Definition of Current Net Settlement Positions</i>	<ul style="list-style-type: none">Describes new methodology to allocate Current Net Settlement Positions of the Sponsoring Member Omnibus Accounts and Agent Clearing Member Omnibus Accounts to the underlying Sponsored Members and Segregated Indirect Participants of those accounts.

List of GSD's Clearing Fund Components

The following charges are included in the Unadjusted GSD Margin Portfolio Amount, which shall not be less than zero:

- ▶ **VaR Charge** – designed to cover projected liquidation losses at a 99% confidence level assuming a 3-day liquidation and hedging period; a primary margin component making up over 90% of Clearing Fund Requirement.
- ▶ **Blackout Period Exposure Adjustment** – designed to mitigate exposure that may arise due to potential overvaluation of transactions collateralized with MBS during the Blackout Period and only applicable to Members who collateralized their portfolio with mortgage-backed security during the Blackout Period.¹
- ▶ **Portfolio Differential** – designed to capture variability in Member's VaR Charge over a set lookback period.

The following charges are then added to the Unadjusted GSD Margin Portfolio Amount:²

- ▶ **Backtesting Charge** – designed to cover exposure observed in excess of the required margin; applied if a Member's backtesting coverage falls below 99% (3 or more observations during 250 trading days).
- ▶ **Holiday Charge** – assessed on Business Day prior to a Holiday; designed to approximate the exposure that a Member's trading activity on the Holiday could pose to FICC.
- ▶ **Margin Liquidity Adjustment** – assessed when Member's portfolio concentration exceeds a threshold in comparison to the available market liquidity of an asset group.
- ▶ **Intraday Supplemental Fund Deposit** – may be added intraday based on re-calculation of the VaR Charge.
- ▶ **Excess Capital Premium** – may be added if a Member's Excess Capital Ratio (VaR Charge divided by reported capital) is greater than 1.0; may be waived if it is determined that the charge is triggered by extraordinary market events.

1 Blackout Period is the period between the last business day of the prior month and the date during the current month upon which a government-sponsored entity that issues mortgage-backed securities publishes its updated pool factor.

2 GSD is currently developing the Minimum Margin Amount ("MMA"), which is designed to act as a supplement to the VaR model and improve responsiveness to volatile market conditions by strengthening the VaR floor.

List of GSD's Clearing Fund Components, cont.

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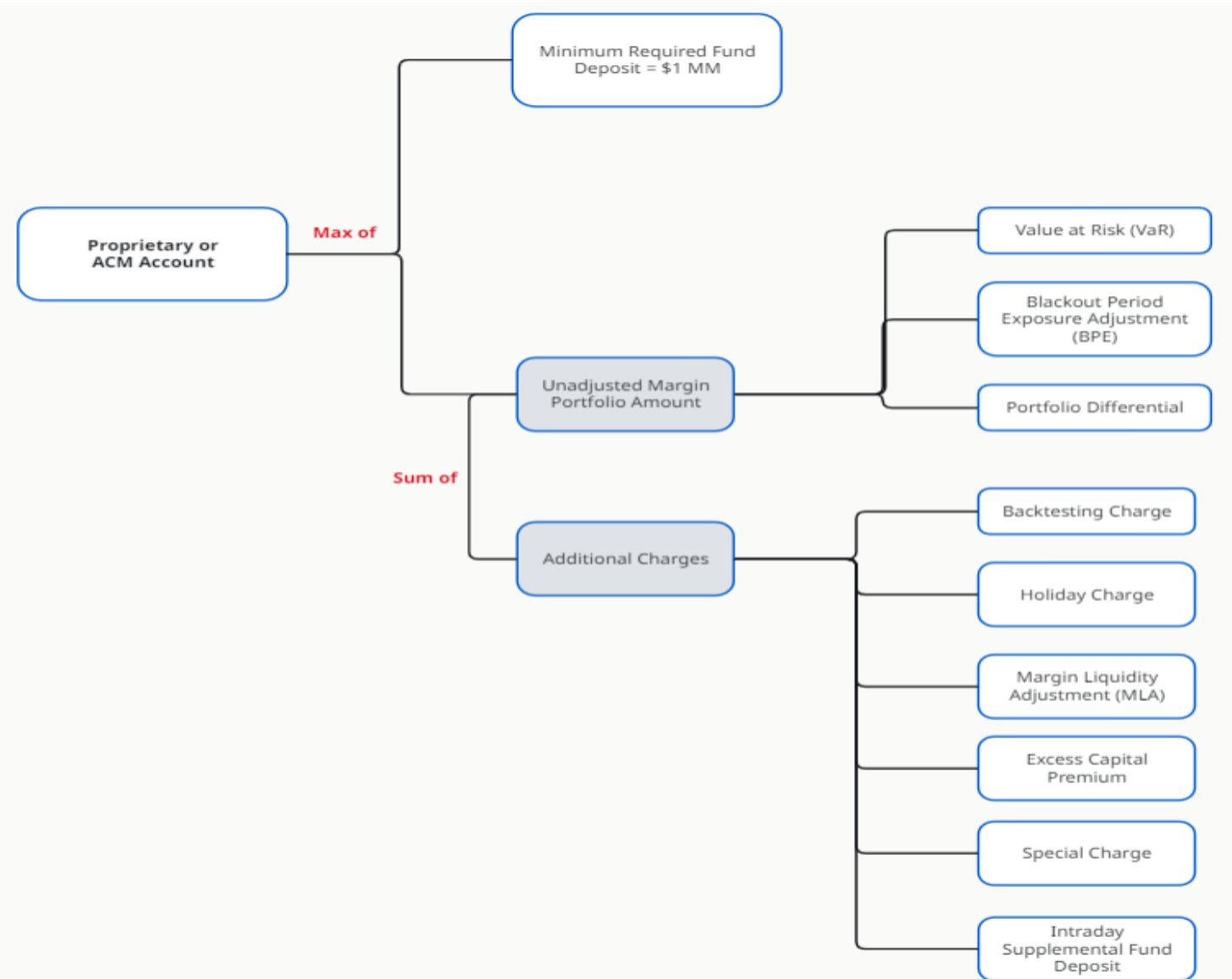
A Netting Member's Required Fund Deposit may be increased by the following additional charges or adjustments:

- ▶ **Special Charge** – additional charge required to mitigate exposure in view of market conditions or other financial and operational capabilities of the Member.
- ▶ **Watch List Charge** – additional charge required by Members that are placed on the Watch List.
- ▶ **Adequate Assurance Additional Deposits** – additional or increased deposits to provide FICC with adequate assurance that the Member can continue to meet its obligations to FICC.
- ▶ **Clearing Fund Premiums** – calculated as the greater of \$1 million or 25% of the Member's Required Fund Deposit and assessed if Member fails to comply with its ongoing membership requirements.

Netting Members must maintain a minimum deposit of \$1M at all times.

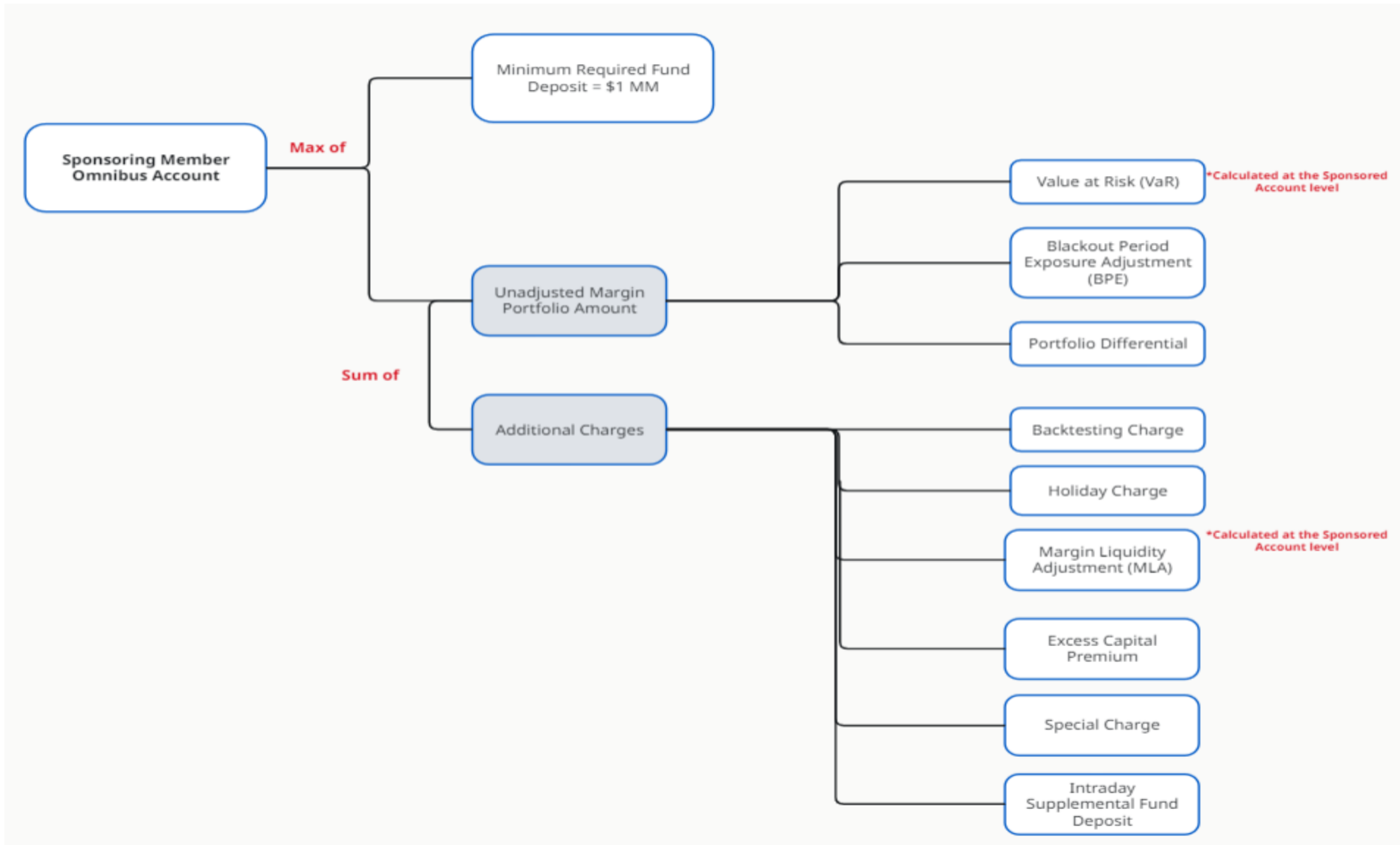
Risk Management of Proprietary and Agent Clearing Member Activity Accounts

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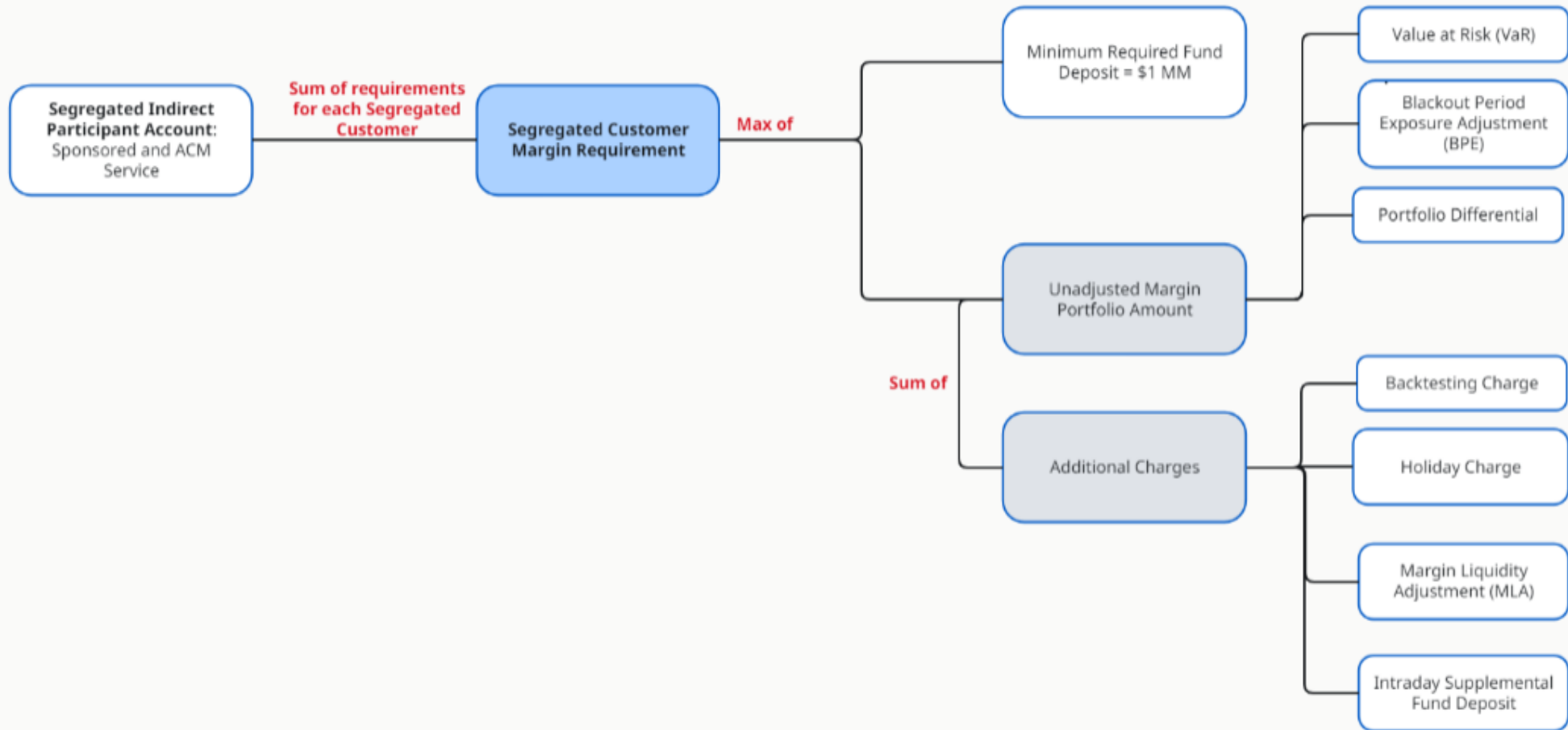
Risk Management of Sponsoring Member Omnibus Accounts

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Risk Management of Segregated Indirect Participant Accounts

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Risk Management of Existing Sponsored Service vs. Segregated Customer Activity

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Existing Margining Regime for Sponsoring Member Omnibus Accounts - Clearing Fund Components

		<i>Min. Required Fund Deposit</i>	<i>VaR</i>	<i>MLA</i>	<i>Portfolio Differential</i>	<i>BPE</i>	<i>Special Charges</i>	<i>Holiday Charge</i>	<i>Excess Capital Premium</i>	<i>IDAY Supplemental Fund Deposit</i>	<i>BackTesting Charge</i>	<i>Min Deposit Special Charge</i>	<i>Total Charges</i>
Sponsoring Member Omnibus Account		1,000,000.00	5,000,000.00	458,000.00	1,856,000.00	(768,000.00)	733,000.00	-	-	700,000.00	1,300,000.00	-	9,279,000.00
	Sponsored Member 1		1,500,000.00	-	-	-	-	-	-	-	-	-	-
	Sponsored Member 2		2,300,000.00	300,000.00	-	-	-	-	-	-	-	-	-
	Sponsored Member 3		475,000.00	-	-	-	-	-	-	-	-	-	-
	Sponsored Member 4		600,000.00	158,000.00	-	-	-	-	-	-	-	-	-
	Sponsored Member 5		125,000.00	-	-	-	-	-	-	-	-	-	-

*Please note: the above referenced margining regime will remain in place for non-Segregated Sponsoring Member Omnibus accounts.

Segregated Indirect Participant Activity - Clearing Fund Components

		<i>Min. Required Fund Deposit</i>	<i>VaR</i>	<i>MLA</i>	<i>Portfolio Differential</i>	<i>BPE</i>	<i>Holiday Charge</i>	<i>IDAY Supplemental Fund Deposit</i>	<i>BackTesting Charge</i>	<i>Min Deposit Special Charge</i>	<i>Total Charges</i>
Segregated Customer Margin Account		5,000,000.00	5,000,000.00	458,000.00	1,856,000.00	(768,000.00)	-	700,000.00	1,300,000.00	1,152,250.00	9,698,250.00
	Segregated Indirect Participant 1	1,000,000.00	1,500,000.00	-	928,250.00	(378,000.00)	-	-	-	-	2,050,250.00
	Segregated Indirect Participant 2	1,000,000.00	2,300,000.00	300,000.00	464,000.00	(390,000.00)	-	700,000.00	1,274,000.00	-	4,648,000.00
	Segregated Indirect Participant 3	1,000,000.00	475,000.00	-	265,000.00	-	-	-	-	260,000.00	1,000,000.00
	Segregated Indirect Participant 4	1,000,000.00	600,000.00	158,000.00	-	-	-	-	26,000.00	216,000.00	1,000,000.00
	Segregated Indirect Participant 5	1,000,000.00	125,000.00	-	198,750.00	-	-	-	-	676,250.00	1,000,000.00