SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-97001; File No. SR-FICC-2023-003)

March 1, 2023

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Revise the Description of the Stressed Period Used to Calculate the Value-at-Risk Charge and Make Other Changes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on February 17, 2023, Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change[3] consists of amendments to the GSD Methodology Document – GSD Initial Market Risk Margin Model ("GSD QRM Methodology Document")[4] and the MBSD Methodology and Model Operations Document – MBSD

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Capitalized terms used herein and not defined shall have the meaning assigned to such terms in the FICC's Government Securities Division ("GSD") Rulebook ("GSD Rules") and FICC's Mortgage-Backed Securities Division ("MBSD") Clearing Rules ("MBSD Rules", and together with the GSD Rules, the "Rules"), available at http://www.dtcc.com/legal/rules-and-procedures.aspx.

4 The GSD QRM Methodology Document was filed as a confidential exhibit in the rule filing and advance notice for GSD sensitivity VaR. See Securities Exchange Act Release Nos. 83362 (June 1, 2018), 83 FR 26514 (June 7, 2018) (SR-FICC-2018-001) and 83223 (May 11, 2018), 83 FR 23020 (May 17, 2018) (SR-FICC-2018-801). The GSD QRM Methodology has been subsequently amended. See Securities Exchange Act Release Nos. 85944 (May 24, 2019), 84 FR 25315 (May

Quantitative Risk Model ("MBSD QRM Methodology Document",[5] and collectively with the GSD QRM Methodology Document, the "QRM Methodology Documents") in order to revise the description of the stressed period used to calculate the VaR Charge (as defined below). FICC is also proposing to amend the GSD QRM Methodology Document in order to clarify the language describing the floor parameters used for the calculation of the VaR Floor. In addition, FICC is proposing to amend the QRM Methodology Documents to make certain technical changes, as described in greater detail below.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared

31, 2019) (SR-FICC-2019-001), 90182 (October 14, 2020), 85 FR 66630 (October 20, 2020) (SR-FICC-2020-009), 93234 (October 1, 2021), 86 FR 55891 (October 7, 2021) (SR-FICC-2021-007), and 95605 (August 25, 2022), 87 FR 53522 (August 31, 2022) (SR-FICC-2022-005).

5 The MBSD QRM Methodology was filed as a confidential exhibit in the rule filing and advance notice for MBSD sensitivity VaR. See Securities Exchange Act Release Nos. 79868 (January 24, 2017), 82 FR 8780 (January 30, 2017) (SR-FICC-2016-007) and 79843 (January 19, 2017), 82 FR 8555 (January 26, 2017) (SR-FICC-2016-801). The MBSD QRM Methodology has been amended. See Securities Exchange Act Release Nos. 85944 (May 24, 2019), 84 FR 25315 (May 31, 2019) (SR-FICC-2019-001), 90182 (October 14, 2020), 85 FR 66630 (October 20, 2020) (SR-FICC-2020-009), 92303 (June 30, 2021), 86 FR 35854 (July 7, 2021) (SR-FICC-2020-017) and 95070 (June 8, 2022), 87 FR 36014 (June 14, 2022) (SR-FICC-2022-002).

summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

FICC has observed significant volatility in the U.S. government securities market due to tightening monetary policy, increasing inflation, and recession fears. The significant volatility has led to greater risk exposures for FICC. In order to mitigate the increased risk exposures, FICC has to quickly and timely respond to rapidly changing market conditions. For example, in order to respond to rapidly changing market conditions, FICC may need to quickly and timely adjust the look-back period that FICC uses for purposes of calculating the VaR Charge with an appropriate stressed period, as needed, to enable FICC to calculate and collect adequate margin from members. Accordingly, FICC is proposing to amend the QRM Methodology Documents by revising the description of the stressed period used to calculate the VaR Charge in order to enable FICC to quickly and timely adjust the look-back period used for calculating the VaR Charge with an appropriate stressed period, as needed. Adjustments to the look-back period could affect the amount of the VaR Charge that GSD Members are assessed by either increasing or decreasing such charge to reflect the level of risk the activities of the GSD Members presented to FICC.

FICC is also proposing to amend the GSD QRM Methodology Document in order to clarify the language describing the floor parameters used for the calculation of the VaR Floor. In addition, FICC is proposing to amend the QRM Methodology Documents to make certain technical changes.

FICC, through GSD and MBSD, serves as a central counterparty (“CCP”) and provider of clearance and settlement services for the U.S. government securities and mortgage-backed securities markets. A key tool that FICC uses to manage its credit exposures to its members is the daily collection of margin from each member. The aggregated amount of all GSD and MBSD members’ margin constitutes the GSD Clearing Fund and MBSD Clearing Fund (collectively referred to herein as the “Clearing Fund”), which FICC would be able to access should a defaulted member’s own margin be insufficient to satisfy losses to FICC caused by the liquidation of that member’s portfolio. Each member’s margin consists of a number of applicable components, including a value-at-risk (“VaR”) charge (“VaR Charge”) designed to capture the potential market price risk associated with the securities in a member’s portfolio. The VaR Charge is typically the largest component of a member’s margin requirement. The VaR Charge is designed to cover FICC’s projected liquidation losses with respect to a defaulted member’s portfolio at a 99% confidence level.

FICC calculates VaR Charge by using a methodology referred to as the sensitivity approach. The sensitivity approach leverages external vendor expertise in supplying the market risk attributes, which would then be incorporated by FICC into the GSD and MBSD models to calculate the VaR Charge. Specifically, FICC sources security-level risk sensitivity data and relevant historical risk factor time series from an external vendor for all eligible securities. The sensitivity data is generated by a vendor based on its econometric, risk and pricing models.

(1) *Revise the Description of the Stressed Period Used to Calculate the VaR Charge*

The sensitivity approach provides FICC with the ability to adjust the look-back period that FICC uses for purposes of calculating the VaR Charge. In particular, the sensitivity approach leverages external vendor data to incorporate a look-back period of 10 years, which allows the GSD and MBSD models to capture periods of historical volatility. In the event FICC observes that the 10-year look-back period does not contain a sufficient number of stressed market conditions, FICC will include an additional period of historically observed stressed market conditions to the 10-year look-back period.

The QRM Methodology Documents currently describe the additional stressed period as a configurable continuous period (typically one year). In addition, the GSD QRM Methodology Document further specifies the duration of the stressed period as one-year of stressed market condition. To ensure the GSD and MBSD models are performing as designed, FICC regularly reviews metrics from various assessments, such as the proportion of failure ("POF") test being used to determine whether the number of member deficiencies, if any, are statistically significant. While recent POF test results indicate that the GSD and MBSD models still perform as designed, FICC has observed a number of instances, for example in certain U.S. Treasury security tenors, where market volatility produced price returns in excess of the 99% confidence level calibration of the VaR models in recent months due to heightened volatility in the market.

In order to provide FICC with more flexibility with respect to the inclusion of sufficient number of stressed market conditions in the look-back period so FICC can respond to rapidly changing market conditions more quickly and timely, FICC is proposing to eliminate this detailed description of the stressed period from Sections 2.10.1 (The list of

key parameters) and A4.5.16.1 (Stressed VaR Calculation) of the GSD QRM Methodology Document, as well as Section 5.17.1 (Stressed VaR Calculation) of the MBSD QRM Methodology Document, and replace it with a more general description. Specifically, the proposed new description of the stressed period would provide in Section A4.5.16.1 of the GSD QRM Methodology Document and Section 5.17.1 of the MBSD QRM Methodology Document that the "stressed period" shall be a period of time that FICC may add, in its sole discretion, to the 10-year historical look-back period that includes stressed market conditions that are not otherwise captured in the look-back period. The proposed new description would also provide that a stressed period, if added to the look-back period, shall be no shorter than 6 months and no longer than 36 months, and comprised of either one continuous period specified by a start date and an end date or comprised of more than one non-continuous period. In addition, the proposed new description would provide that in determining whether it is necessary to add a stressed period to the 10-year historical look-back period and the appropriate length of the added stressed period, FICC would review all relevant information available to it at the time of such determination, including, for example, (1) the nature of the stressed market conditions in the current 10-year historical look-back period, (2) backtesting coverage ratios, and (3) market volatility observed by FICC, in its sole discretion. Furthermore, the proposed new description would provide that changes to the stressed period shall be approved through FICC's model governance process, and any current stressed period shall be documented and published to FICC members at the time such stressed period becomes effective.

FICC believes that having a more general description would enable FICC to adjust the stressed period more quickly and timely because the adjustment process, such as

constructing a stressed period comprised of more than one year's historical data that may not be continuous,[6] would be more streamlined and not require a rule change.[7] By being able to quickly and timely make adjustments to the stressed period, FICC would have the flexibility to respond to rapidly changing market conditions more quickly and timely. Having the flexibility to respond to rapidly changing market conditions more quickly and timely would in turn help better ensure that FICC calculates and collects adequate margin from members as well as risk manages its credit exposures to its members.[8]

Nonetheless, as described in the QRM Methodology Documents, the look-back period would continue to be tracked in the monthly model parameter report and any changes to the look-back period[9] would continue to be subject to DTCC's internal model governance process as described in the Clearing Agency Model Risk Management Framework.[10]

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[6] FICC believes constructing a longer than one-year stressed period, or a stressed period that may not be continuous, would enable FICC to (i) better cope with market volatility spikes by increasing the calibrated volatility level of the VaR models, i.e., longer stressed periods generally result in higher calibrated volatility levels, and (ii) capture a sufficient number of stressed market conditions.

[7] Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Rule 19b-4(n)(1)(i) under the Act, if a change materially affects the nature or level of risks presented by FICC, then FICC is required to file an advance notice filing. 12 U.S.C. 5465(e)(1) and 17 CFR 240.19b-4(n)(1)(i).

[8] FICC is currently contemplating changing the stressed period at GSD from one year to 1.5 year while keeping the current one-year stressed period at MBSD unchanged.

[9] The look-back period includes the stressed period, if any.

[10] The Clearing Agency Model Risk Management Framework ("Framework") sets forth the model risk management practices that FICC and its affiliates The Depository Trust Company ("DTC") and National Securities Clearing Corporation ("NSCC," and together with FICC and DTC, the "Clearing Agencies") follow to identify, measure, monitor, and manage the risks associated with the design, development, implementation, use, and validation of quantitative

(2) *Clarify the Floor Parameter Language*

The VaR Charge is subject to a minimum amount (the "VaR Floor") that FICC employs as an alternative to the amount calculated by the VaR model for portfolios where the VaR Floor[11] is greater than the model-based charge amount. A VaR Floor addresses the risk that the VaR model may calculate too low a VaR Charge for certain portfolios where the VaR model applies substantial risk offsets among long and short positions in different classes of securities that have a high degree of historical correlation. Because this high degree of historical price correlation may not apply in future changing market conditions, FICC applies a VaR Floor in order to protect FICC against such risk in the event that FICC is required to liquidate a large securities portfolio in stressed market conditions.[12]

VaR Floor at GSD is determined by multiplying the absolute value of the sum of the Net Long Positions and Net Short Positions of Eligible Securities, grouped by product and remaining maturity, by a percentage designated by FICC from time to time for such group.

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models. The Framework is filed as a rule of the Clearing Agencies. See Securities Exchange Act Release Nos. 81485 (August 25, 2017), 82 FR 41433 (August 31, 2017) (File Nos. SR-DTC-2017-008; SR-FICC-2017-014; SR-NSCC-2017-008), 88911 (May 20, 2020), 85 FR 31828 (May 27, 2020) (File Nos. SR-DTC-2020-008; SR-FICC-2020-004; SR-NSCC-2020-008), 92380 (July 13, 2021), 86 FR 38140 (July 19, 2021) (File No. SR-FICC-2021-006), 92381 (July 13, 2021), 86 FR 38163 (July 19, 2021) (File No. SR-NSCC-2021-008), 92379 (July 13, 2021), 86 FR 38143 (July 19, 2021) (File No. SR-DTC-2021-003), 94271 (February 17, 2022), 87 FR 10411 (February 24, 2022) (File No. SR-FICC-2022-001), 94272 (February 17, 2022) 87 FR 10419 (February 24, 2022) (File No. SR- NSCC-2022-001), and 94273 (February 17, 2022), 87 FR 10395 (February 24, 2022) (File No. SR-DTC-2022-001).

[11] See definition of "VaR Charge" in GSD Rule 1 (Definitions), supra note 3.

[12] See Securities Exchange Act Release Nos. 83362 (June 1, 2018), 83 FR 26514 (June 7, 2018) (SR-FICC-2018-001) and 83223 (May 11, 2018), 83 FR 23020 (May 17, 2018) (SR-FICC-2018-801).

Currently, the GSD Rules provide that for (i) U.S. Treasury and agency securities, such percentage shall be a fraction, no less than 10%, of the historical minimum volatility of a benchmark fixed income index (i.e., haircut rate) for such group by product and remaining maturity and (ii) mortgage-backed securities, such percentage shall be a fixed percentage that is no less than 0.05%.[13] However, the GSD QRM Methodology Document specifies these percentages (referred to as floor parameters therein) for government bond and MBS Pool as simply 10% and 5 Bps, respectively.

To avoid inconsistency with the GSD Rules, FICC is proposing clarifying changes to the floor parameter language in Section 2.10.1 of the GSD QRM Methodology Document. Specifically, FICC is proposing to revise the description of the floor parameter for government bond by deleting the reference to 10% and adding language that state the parameter is a percentage as designated by FICC from time to time pursuant to the GSD Rules and applied to the haircut rate of the respective government bonds. Similarly, for the description of the floor parameter for MBS Pool, FICC is proposing to revise it by deleting the reference to 5 Bps and adding language that state the parameter is a percentage as designated by FICC from time to time pursuant to the GSD Rules.

In addition, FICC is proposing to add a sentence making it clear that the floor parameters are tracked in the monthly model parameter report and that any future changes to the floor parameters would be subject to DTCC's internal model governance process set forth in the Clearing Agency Model Risk Management Framework.[14]

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13 Id.

14 Supra note 10.

Lastly, consistent with the proposed changes to the floor parameters described above, FICC is proposing to delete from the GSD QRM Methodology Document the language in Sections 3.2.2 (Calculation of haircut of Treasury and Agency bonds without sensitivity analytics data) and 3.5 (Total VaR, Core Charge and Standalone VaR) that references the floor parameters for government bond and MBS pool positions being tentatively set to 10% and 0.05%, respectively.

(3) *Technical Changes*

FICC is proposing to make certain technical changes to the GSD QRM Methodology Document. Specifically, FICC proposes to clarify in Sections 1.1 (Purpose and scope), A4.5.16 (Stressed VaR), and A4.5.16.1 (Stressed VaR Calculation) of the GSD QRM Methodology Document that "SVaR" refers to sensitivity VaR and not stressed VaR. In addition, FICC is also proposing to fix typographical errors in Sections 2.10.1 (The list of key parameters) and A4.5.16.1 (Stressed VaR Calculation) of the GSD QRM Methodology Document.

Impact Study

FICC conducted an impact study for the period from January 2021 to October 2022 ("Impact Study") which reviewed the overall impact of the contemplated change to the stressed period (i.e., changing the current stressed period of one year (September 2008 to August 2009) to a stressed period of 1.5 years (January 2008 to June 2009) on the GSD VaR model backtesting coverage and VaR Charge amounts as well as the effect on the GSD Members during the Impact Study period. The results of the Impact Study indicates that, if a stressed period of 1.5 years had been in place for GSD, the GSD's rolling 12-month VaR model backtesting coverage ratio would have improved by 29 bps

(from 98.52% to 98.81%) as of October 2022 and the associated VaR Charge increase for GSD would be approximately $387 million (or 2.1%) on average during that period.

The three GSD Members with the largest average daily VaR Charge increases in dollar amount during the Impact Study period would have had increases of approximately $43.7 million, $43.24 million, and $39.55 million representing an average daily increase for such Members of 3.4%, 4.4%, and 2.8%, respectively. The three GSD Members with the largest average daily VaR Charge increases as a percentage of VaR Charges paid by such Members during the Impact Study period would have had an average daily increase of 16.6%, 15.7% and 12.7%, respectively, had the contemplated stressed period been in place.

The three GSD Members with the largest average daily VaR Charge decreases in dollar amount during the Impact Study period would have had decreases of approximately $8.59 million, $7.93 million, and $7.24 million representing an average daily decrease for such Members of 4.3%, 1.3%, and 2.9%, respectively. The three GSD Members with the largest average daily VaR Charge decreases as a percentage of VaR Charges paid by such Members during the Impact Study period would have had an average daily decrease of 4.3%, 4.0% and 3.4%, respectively, had the contemplated stressed period been in place.

Implementation Timeframe

Subject to approval by the Commission, FICC would implement the proposed rule changes by no later than 60 Business Days after such approval and would announce the effective date of the proposed changes by an Important Notice posted to its website.

2. Statutory Basis

FICC believes this proposal is consistent with the requirements of the Act, and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, FICC believes that the proposed changes to the QRM Methodology Documents described above are consistent with Section 17A(b)(3)(F) of the Act, for the reasons described below.[15]

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.[16]

FICC believes that the proposed changes to the QRM Methodology Documents described in Item II(A)1(1) above to revise the description of the stressed period used to calculate the VaR Charge are designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[17] As described above, FICC believes these proposed changes would provide FICC with more flexibility with respect to the adjustment of the stressed period and thus allow FICC to respond to rapidly changing market conditions more quickly and timely. FICC believes that having more flexibility with respect to this adjustment would enable FICC to more accurately calculate the necessary margin from members while continuing to limit its exposure to members such that, in the event of a member default, FICC's operations would not be disrupted and non-defaulting members

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[15] 15 U.S.C. 78q-1(b)(3)(F).

[16] Id.

[17] Id.

would not be exposed to losses they cannot anticipate or control. In this way, these proposed changes are designed to assure the safeguarding of securities and funds which are in the custody and control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[18]

FICC believes that the (i) proposed changes to the floor parameter language as described in Item II(A)1(2) above and (ii) the proposed technical changes described in Item II(A)1(3) above would enhance the clarity of the GSD QRM Methodology Document for FICC. As the GSD QRM Methodology Document is used by FICC Risk Management personnel regarding the calculation of margin requirements, it is therefore important that FICC Risk Management has a clear description of the calculation of the margin methodology. Having a clear description of the calculation of the margin methodology would promote an accurate and smooth functioning of the margining process. Having an accurate and smooth functioning of the margining process would enable FICC to more accurately calculate the necessary margin from members and, as described above, assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[19]

Rule 17Ad-22(e)(4)(i) under the Act[20] requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to

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[18] Id.

[19] Id.

[20] 17 CFR 240.17Ad-22(e)(4)(i).

participants and those exposures arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. FICC believes that the proposed changes in Item II(A)1(1) above are consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.[21] As described above, FICC believes these proposed changes to revise the description of the stressed period used to calculate the VaR Charge would provide FICC with more flexibility with respect to the adjustment of the stressed period. FICC believes that having more flexibility with respect to the adjustment of the stressed period would allow FICC to respond to rapidly changing market conditions more quickly and timely. Having the ability to respond to rapidly changing market conditions more quickly and timely would in turn help FICC better measure, monitor, and manage its credit exposures to participants and those exposures arising from its payment, clearing, and settlement processes. Moreover, the added flexibility would allow FICC to collect more accurate margin amounts that would help offset the risks presented to FICC by the changing market conditions, thus help ensure that FICC maintains sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. Therefore, FICC believes that the proposed changes described in Item II(A)1(1) above are consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.[22]

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[21] Id.

[22] Id.

Rule 17Ad-22(e)(6)(i) under the Act[23] requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market. FICC believes that the proposed changes in Item II(A)1(1) above are consistent with the requirements of Rule 17Ad-22(e)(6)(i).[24] Specifically, FICC believes that the proposed changes to replace the current detailed description of the stressed period with a more general description, as described above, would provide FICC with more flexibility to respond to rapidly changing market conditions more quickly and timely because FICC would be able to make adjustments to the stressed period without a rule change. Having this flexibility would enable FICC to better risk manage its credit exposure to its members because FICC would then be able to make appropriate and timely adjustments to the stressed period, as described above. Being able to adjust the stressed period quickly and timely would allow FICC to continue to produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market. Therefore, FICC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(i) under the Act.[25]

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[23] 17 CFR 240.17Ad-22(e)(6)(i).

[24] Id.

[25] Id.

Rule 17Ad-22(e)(6)(v) under the Act[26] requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products. FICC believes that the proposed changes in Item II(A)1(1) above are consistent with the requirements of Rule 17Ad-22(e)(6)(v).[27] Specifically, FICC believes that the proposed changes to replace the current detailed description of the stressed period with a more general description, as described above, would provide FICC with more flexibility to respond to rapidly changing market conditions more quickly and timely because FICC would be able to make adjustments to the stressed period without a rule change. Having this flexibility would enable FICC to better risk manage its credit exposure to its members because FICC would then be able to make appropriate and timely adjustments to the stressed period, as described above. Being able to adjust the stressed period quickly and timely would allow FICC to continue to produce margin levels commensurate with relevant product risk factors and portfolio effects across products. Therefore, FICC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(v) under the Act.[28]

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[26] 17 CFR 240.17Ad-22(e)(6)(v).

[27] Id.

[28] Id.

(B) Clearing Agency's Statement on Burden on Competition

FICC believes proposed changes described in Item II(A)1(1) above may have an impact on competition because these changes could result in members being assessed a higher margin than they would have been assessed under the current description of the stressed period. When these proposed changes result in a higher VaR Charge, they could burden competition for members that have lower operating margins or higher costs of capital compared to other members. However, the increase in VaR Charge would be in direct relation to the specific risks presented by each member's portfolio, and each member's margin requirement would continue to be calculated with the same parameters and at the same confidence level for each member. Therefore, members that have a similar portfolio, regardless of the type of member, would have similar impacts on their margin requirement amounts. As such, FICC believes any burden on competition imposed by the proposed changes described in Item II(A)1(1) would not be significant and, regardless of whether such burden on competition could be deemed significant, would be necessary and appropriate, as permitted by Section 17A(b)(3)(I) of the Act for the reasons described in this filing and further below.[29]

FICC believes any burden on competition imposed by the proposed changes described in Item II(A)1(1) would not be significant. As the result of the Impact Study indicates, if a stressed period of 1.5 years had been in place for GSD, the associated VaR Charge increase at GSD would be approximately $387 million (or 2.1%) on average.

However, even if the burden on competition imposed by the proposed changes described in Item II(A)1(1) were deemed significant, FICC believes that any such burden

[29] 15 U.S.C. 78q-1(b)(3)(I).

on competition would be necessary because, as described above, the proposed changes would provide FICC with more flexibility with respect to the adjustment of the stressed period and allow FICC to respond to rapidly changing market conditions more quickly and timely. Having more flexibility with respect to this calculation would thus help better ensure that FICC calculates and collects adequate margin from members and thereby assure the safeguarding of securities and funds which are in the custody and control of FICC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.[30]

In addition, FICC believes the proposed changes described in Item II(A)1(1) are necessary to support FICC's compliance with Rules 17Ad-22(e)(4)(i), (e)(6)(i), and (e)(6)(v) under the Act.[31] Specifically, as described above, FICC believes these proposed changes would provide FICC with more flexibility with respect to the adjustment of the stressed period. Having more flexibility with respect to these adjustments would allow FICC to respond to rapidly changing market conditions more quickly and timely. Having the ability to respond to rapidly changing market conditions more quickly and timely would in turn help FICC better measure, monitor, and manage its credit exposures to participants and those exposures arising from its payment, clearing, and settlement processes, consistent with the requirements of Rule 17ad-22(e)(4)(i) under the Act.[32]

FICC also believes these proposed changes would enable FICC to be better equipped to respond to rapidly changing market conditions. FICC believes having this flexibility would help lead to a better risk management practice because it would enable

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30 15 U.S.C. 78q-1(b)(3)(F).

31 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i), and (e)(6)(v).

32 17 CFR 240.17Ad-22(e)(4)(i).

FICC to adjust the stressed period in response to fast changing market conditions. Being able to adjust the stressed period in response to fast changing market conditions would enable FICC to produce margin levels more commensurate with the risks it faces as a CCP and help FICC cover its credit exposures to its participants, consistent with the requirements of Rules 17Ad-22(e)(6)(i) and (e)(6)(v) under the Act.[33]

FICC also believes that any burden on competition that may be imposed by the proposed changes described in Item II(A)1(1) would be appropriate in furtherance of the Act because, as described above, these proposed changes have been specifically designed to assure the safeguarding of securities and funds which are in the custody and control of FICC or for which it is responsible, as required by Section 17A(b)(3)(F) of the Act.[34] As described above, the proposed changes to revise the description of the stressed period used to calculate the VaR Charge would also enable FICC to produce margin levels commensurate with the risks and particular attributes of each member's portfolio. Therefore, because the proposed changes are designed to provide FICC with an appropriate measure of the risks presented by members' portfolios, FICC believes these proposed changes are appropriately designed to meet its risk management goals and regulatory obligations.

FICC believes that the proposed changes described in Item II(A)1(1) above may also promote competition because these changes could also result in members being assessed a lower margin than they would have been assessed under the current

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[33] 17 CFR 240.17Ad-22(e)(6)(i) and (e)(6)(v).

[34] 15 U.S.C. 78q-1(b)(3)(F).

description of the stressed period, and thereby could potentially lower operating costs for members.[35]

With respect to the proposed changes described in Items II(A)1(2) and II(A)1(3) above to make clarifying and technical changes to the GSD QRM Methodology Document, FICC does not believe these proposed changes would have any impact on competition because these proposed changes would only enhance the clarity of the GSD QRM Methodology Document, which would promote an accurate and smooth functioning of the margining process at FICC and would not affect the substantive rights and obligations of members.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

FICC has not received or solicited any written comments relating to this proposal. If any additional written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

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[35] As the result of the Impact Study indicates, if FICC were to change the stressed period pursuant to the proposed changes described in Item II(A)1(1), some members would be assessed a lower margin than they would have been assessed under the current continuous one-year stressed period.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at https://www.sec.gov/regulatory-actions/how-to-submit-comments. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the SEC's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

FICC reserves the right not to respond to any comments received.

III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2023-003 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-FICC-2023-003. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC's website (http://dtcc.com/legal/sec-rule-filings.aspx). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make

available publicly. All submissions should refer to File Number SR-FICC-2023-003 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[36]

Sherry R. Haywood
Assistant Secretary

[36] 17 CFR 200.30-3(a)(12).