SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-97342; File No. SR-FICC-2023-003)

April 21, 2023

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

On February 17, 2023, the Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change SR-FICC-2023-003 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder.[2] The proposed rule change was published for comment in the Federal Register on March 7, 2023.[3] The Commission has received no comments regarding the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

I. DESCRIPTION OF THE PROPOSED RULE CHANGE

FICC operates two divisions: the Government Securities Division ("GSD") and the Mortgage Backed Securities Division ("MBSD"). GSD provides trade comparison, netting, risk management, settlement, and central counterparty services for the U.S. Government securities market. MBSD provides the same services for the U.S. mortgage-backed securities market. GSD and MBSD maintain separate sets of rules, margin models, and clearing funds.

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

2 17 CFR 240.19b-4.

3 Securities Exchange Act Release No. 97001 (Mar. 1, 2023), 88 FR 14189 (Mar. 7, 2023) (File No. SR-FICC-2023-003) ("Notice").

A key tool that FICC uses to manage its credit exposures to its members is the daily collection of margin from each member. A member's margin is designed to mitigate potential losses associated with liquidation of the member's portfolio in the event of that member's default. The aggregated amount of all GSD and MBSD members' margin constitutes the GSD Clearing Fund and MBSD 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 the 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 states that it has observed significant volatility in the U.S. government securities market due to tightening monetary policy, increasing inflation, and recession fears, and that this volatility has led to greater risk exposures for FICC.[4] FICC represents that, in order to mitigate the increased risk exposures, FICC has to quickly and timely respond to rapidly changing market conditions.[5] For example, in order to respond to rapidly changing market conditions, FICC states that it may need to quickly adjust the look-back period that FICC uses for purposes of calculating the VaR Charge with an

4 See Notice, supra note 3, 88 FR at 14189.

5 Id.

appropriate stressed period, as needed, to enable FICC to calculate and collect adequate margin from members.[6]

Accordingly, FICC is proposing to amend the GSD Quantitative Risk Management ("QRM") Methodology Document – GSD Initial Market Risk Margin Model ("GSD QRM Methodology Document")[7] and the MBSD Methodology and Model Operations Document – MBSD Quantitative Risk Model ("MBSD QRM Methodology Document,"[8] and collectively with the GSD QRM Methodology Document, the "QRM Methodology Documents") to revise the description of the stressed period used to

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6 Id.

7 FICC filed an excerpt of the GSD QRM Methodology Document showing the proposed changes as a confidential exhibit to this proposed rule change, pursuant to 17 CFR 240.24-b2. FICC originally filed the GSD QRM Methodology Document confidentially as part of a previous proposed rule change and advance notice approved by the Commission regarding FICC's GSD sensitivity VaR. See Securities Exchange Act Release Nos. 83362 (Jun. 1, 2018), 83 FR 26514 (Jun. 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 Document has been subsequently amended. See Securities Exchange Act Release Nos. 85944 (May 24, 2019), 84 FR 25315 (May 31, 2019) (SR-FICC-2019-001), 90182 (Oct. 14, 2020), 85 FR 66630 (Oct. 20, 2020) (SR-FICC-2020-009), 93234 (Oct. 1, 2021), 86 FR 55891 (Oct. 7, 2021) (SR-FICC-2021-007), and 95605 (Aug. 25, 2022), 87 FR 53522 (Aug. 31, 2022) (SR-FICC-2022-005).

8 FICC filed an excerpt of the MBSD QRM Methodology Document showing the proposed changes as a confidential exhibit to this proposed rule change, pursuant to 17 CFR 240.24-b2. FICC originally filed the MBSD QRM Methodology Document confidentially as part of a previous proposed rule change and advance notice approved by the Commission regarding FICC's MBSD sensitivity VaR. See Securities Exchange Act Release Nos. 79868 (Jan. 24, 2017), 82 FR 8780 (Jan. 30, 2017) (SR-FICC-2016-007) and 79843 (Jan. 19, 2017), 82 FR 8555 (Jan. 26, 2017) (SR-FICC-2016-801). The MBSD QRM Methodology Document has been subsequently amended. See Securities Exchange Act Release Nos. 85944 (May 24, 2019), 84 FR 25315 (May 31, 2019) (SR-FICC-2019-001), 90182 (Oct. 14, 2020), 85 FR 66630 (Oct. 20, 2020) (SR-FICC-2020-009), 92303 (Jun. 30, 2021), 86 FR 35854 (Jul. 7, 2021) (SR-FICC-2020-017) and 95070 (Jun. 8, 2022), 87 FR 36014 (Jun. 14, 2022) (SR-FICC-2022-002).

calculate the VaR Charge in order to help FICC quickly and timely adjust the look-back period used for calculating the VaR Charge with an appropriate stressed period, as needed. FICC states that adjustments to the look-back period could affect the amount of the VaR Charge that members are assessed by either increasing or decreasing such charge to reflect the level of risk the activities of the members presented to FICC.[9] FICC is also proposing to amend the GSD QRM Methodology Document to clarify the language describing the parameters used to calculate the VaR Floor.[10] Finally, FICC is proposing to amend the GSD QRM Methodology Document to make certain technical changes described in greater detail below.

A. Revising the Description of the Stressed Period Used to Calculate the VaR Charge

FICC calculates VaR Charge by using a methodology referred to as the sensitivity approach. The sensitivity approach allows FICC 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[11] 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

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9 See Notice, supra note 3, 88 FR at 14189.

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

11 FICC states that 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. See Notice, supra note 3, 88 FR at 14189-90.

observes that the 10-year look-back period does not contain a sufficient number of stressed market events, FICC will include an additional period of historically observed stressed market events to the 10-year look-back period.[12]

The QRM Methodology Documents currently describe the additional stressed period as a configurable continuous period (typically one year). The GSD QRM Methodology Document further specifies the duration of the stressed period as one-year of stressed market events. FICC states that it regularly reviews metrics from various assessments to ensure the GSD and MBSD models are performing as designed.

In order to provide FICC with more flexibility with respect to the inclusion of sufficient number of stressed market events 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 the GSD QRM Methodology Document (in Sections 2.10.1 (The list of key parameters) and A4.5.16.1 (Stressed VaR Calculation)), as well as the MBSD QRM Methodology Document (Section 5.17.1 (Stressed VaR Calculation)), and replace it with a more general description. Specifically, the proposed new description of the stressed period would provide in the GSD QRM Methodology Document (Section A4.5.16.1) and the MBSD QRM Methodology Document (Section 5.17.1) 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 events 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

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12 See Notice, supra note 3, 88 FR at 14190.

comprised of either one continuous period specified by a start date and an end date or comprised of more than one non-continuous period. FICC states that it is currently contemplating changing the stressed period at GSD from one year to 1.5 years while keeping the current one-year stressed period at MBSD unchanged.[13]

In addition, the proposed new description would provide that, when determining whether it is necessary to add a stressed period to the 10-year historical look-back period (and the appropriate length of an 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 events in the current 10-year historical look-back period, (2) backtesting coverage ratios, and (3) market volatility observed by FICC. Further, the proposed new description would provide that changes to the stressed period shall be approved through FICC's model governance process set forth in the Clearing Agency Model Risk Management Framework ("Framework"),[14] and any current stressed period

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13 Id.

14 The 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 models. The Framework is filed as a rule of the Clearing Agencies. See Securities Exchange Act Release Nos. 81485 (Aug. 25, 2017), 82 FR 41433 (Aug. 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 (Jul. 13, 2021), 86 FR 38140 (Jul. 19, 2021) (File No. SR-FICC-2021-006), 92381 (Jul. 13, 2021), 86 FR 38163 (Jul. 19, 2021) (File No. SR-NSCC-2021-008), 92379 (Jul. 13, 2021), 86 FR 38143 (Jul. 19, 2021) (File No. SR-DTC-2021-003), 94271 (Feb. 17, 2022), 87 FR 10411 (Feb. 24, 2022) (File No. SR-FICC-2022-001), 94272 (Feb. 17, 2022) 87 FR 10419 (Feb. 24, 2022) (File No. SR- NSCC-2022-001), and 94273 (Feb. 17, 2022), 87 FR 10395 (Feb. 24, 2022) (File No. SR-DTC-2022-001).

shall be documented and published to FICC members at the time such stressed period becomes effective.[15]

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,[16] would be more streamlined and not require a rule change.[17] By being able to quickly and timely make adjustments to the stressed period, FICC states that it would have the flexibility to respond to rapidly changing market conditions more quickly and timely, which would, in turn, help better ensure that FICC calculates and collects adequate margin from members and risk manages its credit exposures to its members.[18] The look-back period would continue to be tracked in the monthly model parameter report, pursuant to the QRM Methodology Documents, and any changes to the look-back period[19] would

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15 See Notice, supra note 3, 88 FR at 14190.

16 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 events. Id.

17 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).

18 See Notice, supra note 3, 88 FR at 14190.

19 The look-back period includes the stressed period, if any. Id.

continue to be subject to the internal model governance process of the Depository Trust and Clearing Corporation ("DTCC"), as described in the Framework.[20]

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 indicate that, if a stressed period of 1.5 years had been in place for GSD,[21] 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.[22]

The Impact Study further indicated that 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,

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20 See supra note 14.

21 As noted above, FICC states that it is currently contemplating changing the stressed period at GSD from one year to 1.5 years while keeping the current one-year stressed period at MBSD unchanged. See Notice, supra note 3, 88 FR at 14190.

22 FICC filed a summary of the Impact Study as confidential Exhibit 3 to this proposed rule change. Exhibit 3 provides more granular data concerning these results, including comparisons of the GSD VaR model backtesting coverage ratios for the current stressed period against the contemplated 1.5 year stressed period on a monthly basis, as well as comparisons of member-level VaR Charge amounts under those two stressed periods. FICC requested confidential treatment of Exhibit 3 pursuant to 17 CFR 240.24-b2.

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.

B. Clarifying the VaR 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[23] 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,

23 See definition of "VaR Charge" in GSD Rule 1 (Definitions), supra note 10.

FICC applies a VaR Floor to protect FICC against such risk in the event that FICC is required to liquidate a large securities portfolio in stressed market conditions.[24]

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. 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%.[25] 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

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

25 See definition of "VaR Charge" in GSD Rule 1 (Definitions), supra note 10.

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 Framework.[26]

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.

C. 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.

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[26] See supra note 14.

II. DISCUSSION AND COMMISSION FINDINGS

Section 19(b)(2)(C) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. After careful consideration, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to FICC.[27] In particular, the Commission finds that the proposed rule change is consistent with Sections 17A(b)(3)(F) and (b)(3)(I) of the Act,[28] as well as Rules 17Ad-22(e)(4) and (e)(6) thereunder.[29]

A. Consistency with Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a clearing agency be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions and assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.[30]

As described in Section I.A above, FICC proposes replacing the current detailed description of the stressed period in the QRM Methodology Documents with a more general description, so FICC would have the flexibility to quickly adjust the look-back period FICC uses for purposes of calculating the VaR Charge with an appropriate

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27 15 U.S.C. 78s(b)(2)(C).

28 15 U.S.C. 78q-1(b)(3)(F) and (b)(3)(I).

29 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i), and (e)(6)(v).

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

stressed period, as needed, to enable FICC to calculate and collect adequate margin from members. Specifically, the proposal would change the current description of the stressed period in the QRM Methodology Documents from a configurable continuous period that is typically one year to a continuous period, or more than one non-continuous period, that would be no shorter than 6 months and no longer than 36 months.

As described above in Section I.A and in the Notice, FICC has provided data demonstrating that if FICC had changed 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), GSD's rolling 12-month VaR model backtesting coverage ratio would have increased from 98.52% to 98.81% during the period of January 2021 to October 2022.[31] The Commission has reviewed FICC's data and agrees that its results indicate that the proposed changes should help FICC generate margin amounts that more effectively cover its credit exposures than under the current rule.

Accordingly, the Commission believes that the proposed change to the description of the stressed period should provide FICC with more flexibility to quickly adjust the stressed period, which should enhance FICC's ability to collect margin that better reflects the risks and particular attributes of its members' portfolios during periods rapidly changing market conditions. For these reasons, the Commission believes that implementing this change should help ensure that, in the event of a member default, FICC's operation of its critical clearance and settlement services would not be disrupted because of insufficient financial resources. Accordingly, the Commission finds that the change to the description of the stressed period should help FICC to continue providing prompt and accurate clearance

[31] See Notice, supra note 3, 88 FR at 14191.

and settlement of securities transactions in the event of a member default, consistent with Section 17A(b)(3)(F) of the Act.

Moreover, as described above in Section I, in the event of a clearing member default, FICC would access the mutualized the Clearing Fund should a defaulted member's own margin be insufficient to satisfy losses to FICC caused by the liquidation of that member's portfolio. The proposed change to the description of the stressed period should help FICC collect sufficient margin from members, thereby limiting non-defaulting members' exposure to mutualized losses in the event of a member default. The Commission believes that by helping to limit the exposure of FICC's non-defaulting members to mutualized losses, the proposed changes should help FICC assure the safeguarding of securities and funds which are in its custody or control, consistent with Section 17A(b)(3)(F) of the Act.

In addition to the proposed changes to the stressed period, FICC proposes several technical and conforming changes, described above in Sections I.B and I.C, to enhance the clarity of the GSD QRM Methodology Document. For example, for consistency with the GSD Rules, FICC would clarify in the GSD QRM Methodology Document that the floor parameters used for the calculation of the VaR Floor would be specified in the GSD Rules, that those floor parameters would be 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. The Commission believes that greater clarity of the GSD QRM Methodology Document should better enable FICC to effectively implement the document's provisions. Accordingly, the Commission believes that these proposed changes should better enable FICC to assess and collect sufficient margin from its members, thereby assuring the safeguarding of securities and funds that are in FICC's custody or control, consistent with Section 17A(b)(3)(F) of the Act.

B. Consistency with Rule 17Ad-22(e)(4) Under the Act

Rule 17Ad-22(e)(4)(i) under the Act requires a covered clearing agency[32] to establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to 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.[33]

As described in Section I.A above, FICC's proposal to change the description of the stressed period in the QRM Methodology Documents should enhance FICC's ability to calculate and collect sufficient margin from its members. For example, the results of FICC's Impact Study demonstrate that during the period of January 2021 to October 2022, GSD's rolling 12-month VaR model backtesting coverage ratio would have improved by 29 bps (from 98.52% to 98.81%) by increasing the look-back period to 1.5 years.[34] The added flexibility from the more general description of the stressed period under the

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32 A "covered clearing agency" means, among other things, a clearing agency registered with the Commission under Section 17A of the Act (15 U.S.C. 78q-1 et seq.) that is designated systemically important by Financial Stability Oversight Council ("FSOC") pursuant to the Clearing Supervision Act (12 U.S.C. 5461 et seq.). See 17 CFR 240.17Ad-22(a)(5) and (a)(6). Because FICC is a registered clearing agency with the Commission that has been designated systemically important by FSOC, FICC is a covered clearing agency.

33 17 CFR 240.17Ad-22(e)(4)(i).

34 See supra note 22.

proposal should also provide FICC with the ability to quickly adjust the stress period in response to rapidly changing market conditions, which in turn, should better enable FICC to risk manage its members' positions and collect sufficient margin to effectively cover FICC's credit exposures.

Because the foregoing proposed changes should better enable FICC to collect sufficient margin from members, the Commission believes that the proposed changes should enhance FICC's ability to maintain sufficient financial resources to cover its credit exposures to applicable member portfolios fully with a high degree of confidence, consistent with Rule 17Ad-22(e)(4)(i) under the Act.

C. Consistency with Rule 17Ad-22(e)(6) Under the Act

Rule 17Ad-22(e)(6)(i) under the Act requires a covered clearing agency to establish, implement, maintain, and enforce written policies and procedures reasonably designed to cover 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.[35] Rule 17Ad-22(e)(6)(v) under the Act requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover 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.[36]

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[35] 17 CFR 240.17Ad-22(e)(6)(i).

[36] 17 CFR 240.17Ad-22(e)(6)(v).

As described in Section I.A above, FICC's proposal to replace the current detailed description of the stressed period with a more general description should give FICC more flexibility to respond to rapidly changing market conditions more quickly because FICC would be able to make adjustments to the stressed period without a rule change. As a result, this flexibility should enable FICC to better risk manage its credit exposure by enhancing FICC's ability to calculate and collect margin commensurate with the risks and particular attributes of each member's portfolio.

For these reasons, the Commission believes that the proposed changes should help ensure that FICC produces margin levels commensurate with the risks and particular attributes of its members' portfolios by adding flexibility to parameters for the stressed period to help ensure that the look-back period captures a sufficient number of stressed market events, and allowing FICC to make timely adjustments to the stressed period in response to rapidly changing market conditions. Accordingly, the Commission believes that the proposed changes would enhance FICC's risk-based margin system to better enable FICC to cover its credit exposures to its members because the proposed changes consider the risks and particular attributes of the relevant products, portfolios, and markets, consistent with the requirements of Rule 17Ad-22(e)(6)(i).[37] Similarly, the Commission believes that the proposed changes are reasonably designed to cover FICC's credit exposures to its members because the proposed changes would enhance FICC's risk-based margin system using appropriate methods for measuring credit exposures that

37 17 CFR 240.17Ad-22(e)(6)(i).

account for relevant product risk factors and portfolio effects, consistent with the requirements of Rule 17Ad-22(e)(6)(v).[38]

III. CONCLUSION

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act[39] and the rules and regulations promulgated thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act[40] that proposed rule change SR-FICC-2023-003, be, and hereby are, APPROVED.[41]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[42]

Sherry R. Haywood

Assistant Secretary

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38 17 CFR 240.17Ad-22(e)(6)(v).

39 15 U.S.C. 78q-1.

40 15 U.S.C. 78s(b)(2).

41 In approving the proposed rule change, the Commission considered the proposals' impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

42 17 CFR 200.30-3(a)(12).