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SECURITIES AND EXCHANGE COMMISSION  
[Release No. 34-71469; File No. SR-FICC-2014-801]

Self-Regulatory Organizations; The Fixed Income Clearing Corporation; Notice of Filing of an Advance Notice Concerning the Government Security Division's Inclusion of GCF Repo® Positions in Its Intraday Participant Clearing Fund Requirement Calculation, and Its Hourly Internal Surveillance Cycles

February 4, 2014.

Pursuant to Section 806(e)(1)(A) of the Payment, Clearing, and Settlement Supervision Act of 2010 ("Clearing Supervision Act")<sup>1</sup> and Rule 19b-4(n)(1)(i) of the Securities Exchange Act of 1934 ("Act"),<sup>2</sup> notice is hereby given that on January 10, 2014, The Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") the advance notice as described in Items I, II and III below, which Items have been prepared by FICC. The Commission is publishing this notice to solicit comments on the advance notice from interested persons.

**I. Clearing Agency's Statement of the Terms of Substance of the Proposed Advance Notice**

This advance notice is filed by the Government Securities Division (the "GSD") of FICC in connection with including GCF Repo®<sup>3</sup> positions in its intraday (i.e., noon)

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<sup>1</sup> 12 U.S.C. 5465(e)(1)(A). The Financial Stability Oversight Council designated FICC a systemically important financial market utility on July 18, 2012. *See* Financial Stability Oversight Council 2012 Annual Report, Appendix A, <http://www.treasury.gov/initiatives/fsoc/Documents/2012%20Annual%20Report.pdf>. Therefore, FICC is required to comply with Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

<sup>2</sup> 17 CFR 240.19b-4(n)(1)(i).

<sup>3</sup> The GCF Repo® service enables dealers to trade general collateral repos, based on rate, term, and underlying product, throughout the day without requiring intraday, trade-for-trade settlement on a Deliver-versus-Payment (DVP) basis. The service fosters a highly liquid market for securities financing.

participant Clearing Fund requirement calculation, and its hourly internal surveillance cycles. The model change is described in additional detail below.

**II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Advance Notice**

In its filing with the Commission, FICC included statements concerning the purpose of and basis for the advance notice and discussed any comments it received on the advance notice. The text of these statements may be examined at the places specified in Item IV below. FICC has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

**(A) Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Advance Notice**

(a) GSD plans to incorporate GCF Repo positions in its intraday (i.e., noon) participant Clearing Fund requirement calculation, and its hourly internal surveillance cycles. This enhancement is intended to align GSD’s risk management calculations and monitoring with the changes that have been implemented to the tri-party infrastructure by the Tri-Party Reform Task Force (the “Task Force”)<sup>4</sup> specifically, with respect to locking up of GCF Repo collateral until 3:30 p.m. (EST) rather than 7:45 a.m. (EST).

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<sup>4</sup> The Tri-Party Repo Infrastructure Task Force was formed in September 2009 under the auspices of the Payments Risk Committee, a private-sector body sponsored by the Federal Reserve Bank of New York. The Task Force’s goal is to enhance the repo market’s ability to navigate stressed market conditions by implementing changes that help better safeguard the market. DTCC has worked in close collaboration with the Task Force on their reform initiatives.

(b) The proposed change is consistent with Rule 17Ad-22<sup>5</sup> (the “Clearing Agency Standards”) which establishes the minimum requirements regarding how registered clearing agencies must maintain effective risk management procedures and controls. Specifically, consistent with Rule 17Ad-22(b)(1)<sup>6</sup> and (b)(2)<sup>7</sup>, FICC’s more accurate and timely calculations around and monitoring of GCF Repo activity will better enable FICC to respond in the event that a member defaults. As such, FICC believes that the proposal promotes robust risk management and the safety and soundness of FICC’s operations, which reduce systemic risk and support the stability of the broader financial system which is consistent with the Clearing Agency Standards.<sup>8</sup>

**(B) Self-Regulatory Organization’s Statements on Comments on the Advance Notice Received from Members, Participants, or Others**

Written comments relating to the change have not yet been solicited or received.

FICC will notify the Commission of any written comments received by FICC.

**(C) Advance Notice Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

**Description of Change**

(i) Overview

GSD plans to incorporate GCF Repo positions in its intraday (i.e., noon) participant Clearing Fund requirement calculation, and its hourly internal surveillance cycles. This enhancement is intended to align GSD’s risk management calculations and

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<sup>5</sup> 17 CFR 240.17Ad-22.

<sup>6</sup> 17 CFR 240.17Ad-22(b)(1).

<sup>7</sup> 17 CFR 240.17Ad-22(b)(2).

<sup>8</sup> 17 CFR 240.17Ad-22.

monitoring with the changes that have been implemented to the tri-party infrastructure by the Task Force.

Historically, the GCF Repo collateral had been unwound by approximately 7:45 a.m. (all times are New York time). In connection with the Task Force's tri-party reform, GCF Repo collateral now remains locked up until 3:30 p.m., with substitutions permitted intraday at the times established by each clearing bank. Because the GCF Repo collateral was unwound at 7:45 a.m., the current production system does not include GCF Repo collateral in the GSD intraday Clearing Fund requirement calculation, and its hourly surveillance cycles. To account for the risk associated with the GCF Repo positions, GSD's margin requirements currently apply a "higher of" standard, which means that the margin calculation takes the higher of the prior night's core charge<sup>9</sup> (which includes GCF Repo collateral) or the current day's noon core charge (which does not<sup>10</sup> include GCF Repo collateral). However, now that the collateral is locked-up until 3:30 p.m., the intraday Clearing Fund requirements and hourly surveillance calculations will be based on the actual locked-up GCF Repo collateral. In the ordinary course of business, the "higher of" standard will not apply. However, this standard will remain available in the event that one or both clearing banks do not provide intraday GCF Repo position data because such clearing bank, as applicable, is unable to provide the data.

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<sup>9</sup> The core charge consists primarily of Value-at-Risk, the Implied Volatility Charge (also known as the Augmented Volatility Multiplier) and the Coverage Component.

<sup>10</sup> Since GCF collateral is excluded, only DVP positions are included in the noon core charge.

In connection with this initiative, FICC will have an extended member parallel period of at least 6 weeks during which GCF Repo participants will be able to view their production and test requirements on a daily basis. This will allow members to assess the impact of the change in margining for the mid-day cycle and potentially adjust their GCF Repo activity prior to implementation of the change.

**Anticipated Effect on and Management of Risks**

FICC believes that the proposed changes will improve its risk management by providing a more accurate and timely view of member positions and their corresponding exposures.

This enhancement is intended to align GSD's risk management calculations and monitoring with the changes that have been implemented to the tri-party infrastructure by the Task Force.

Prior to implementation of the proposed changes, several steps were and/or will be taken to prepare for the changes and to prepare members for the changes. These steps include internal review of the data available in the test environment, customer outreach and the parallel period for members.

FICC believes it is important to incorporate the proposed changes in its risk management process as soon as possible because such changes will allow GSD to use more accurate position information in its margin calculations. Because FICC's risk engine has not yet incorporated the locked-up GCF Repo positions in intraday risk calculations, FICC cannot at this time provide a specific estimate of the impact of this enhancement.

FICC believes that the proposed changes will better reflect the actual risk in its members' portfolios. For members who participate in the GCF Repo service, this change will impact their Clearing Fund requirements. However, because of the parallel period, members will have time to review the possible impact and potentially modify their settlement and trading activity to align with the changes to the intraday margin calculation. FICC's parallel period will cover at least six weeks to give customers ample time to review the impact and consider changes to their portfolios.

**III. Date of Effectiveness of the Advance Notice and Timing for Commission Action**

The designated clearing agency may implement this change if it has not received an objection to the proposed change within 60 days of the later of (i) the date that the Commission receives notice of the proposed change, or (ii) the date the Commission receives any further information it requests for consideration of the notice. The designated clearing agency shall not implement this change if the Commission has any objection.

The Commission may, during the 60-day review period, extend the review period for an additional 60 days for proposed changes that raise novel or complex issues, subject to the Commission providing the designated clearing agency with prompt written notice of the extension. The designated clearing agency may implement a change in less than 60 days from the date of receipt of the notice of proposed change by the Commission, or the date the Commission receives any further information it requested, if the Commission notifies the designated clearing agency in writing that it does not object to the proposed

change and authorizes the designated clearing agency to implement the change on an earlier date, subject to any conditions imposed by the Commission.

The designated clearing agency shall post notice on its website of proposed changes that are implemented.

#### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing. 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](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2014-801 on the subject line.

##### Paper Comments:

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

All submissions should refer to File Number SR-FICC-2014-801. 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 of submission.

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 advance notice that are filed with

the Commission, and all written communications relating to the advance notice 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 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 FICC's website at <http://www.dtcc.com/~media/Files/Downloads/legal/rule-filings/2014/ficc/SR-FICC-2014-801-advance-notice.ashx>. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2014-801 and should be submitted on or before [INSERT DATE 21 DAYS FROM PUBLICATION IN THE FEDERAL REGISTER].

By the Commission.

Kevin M. O'Neill,  
Deputy Secretary.

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