

*Electronic Comments*

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-NYSEARCA-2024-21 on the subject line.

*Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to file number SR-NYSE-SR-NYSEARCA-2024-21. This file number should be included on the subject line if email 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 (<https://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 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-SR-NYSEARCA-2024-21 and should be submitted on or before April 5, 2024.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>16</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

[FR Doc. 2024-05485 Filed 3-14-24; 8:45 am]

**BILLING CODE 8011-01-P**

<sup>16</sup> 17 CFR 200.30-3(a)(12).

**SECURITIES AND EXCHANGE COMMISSION**

[SEC File No. 270-563, OMB Control No. 3235-0694]

**Proposed Collection; Comment Request; Extension: Rule 17g-10 and Form ABS Due Diligence-15E**

*Upon Written Request, Copies Available From:* Securities and Exchange Commission, Office of FOIA Services, 100 F Street NE, Washington, DC 20549-2736

Notice is hereby given that pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 *et seq.*), the Securities and Exchange Commission ("Commission") is soliciting comments on the existing collection of information provided for in Rule 17g-10 and Form ABS Due Diligence-15E (17 CFR 240.17g-10 and 17 CFR 249b.500) under the Securities Exchange Act of 1934 ("Exchange Act") (15 U.S.C. 78a *et seq.*). The Commission plans to submit this existing collection of information to the Office of Management and Budget for extension and approval.

Rule 17g-10 requires a provider of third-party due diligence services to provide the written certification required by Section 15E(s)(4) of the Exchange Act on Form ABS Due Diligence-15E. Based on Commission staff's experience, it is estimated that third-party due diligence service providers would be required to spend, on average, 0.20 hours to complete and transmit Form ABS Due Diligence-15E, for a total annual burden of 470 hours.<sup>1</sup> The cost for a compliance manager to complete and submit Form ABS Due Diligence-15E pursuant to Rule 17g-10 is estimated at \$372 per hour,<sup>2</sup> resulting in an industry-wide annual internal cost to third-party service providers of \$175,000 per year.

Written comments are invited on: (a) whether the proposed collection of information is necessary for the proper performance of the functions of the Commission, including whether the information shall have practical utility;

<sup>1</sup> This figure is calculated by multiplying the per year average number of offerings of asset-backed securities, as the term is defined in Section 3(a)(79) of the Exchange Act, which was estimated at 1,410 offerings, by the hour burden to complete and transmit Form ABS Due Diligence-15E, estimated at 0.20 hours (1,410 offerings × 0.20 hours = 470 hours).

<sup>2</sup> The \$372 figure for a compliance manager is based on SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1,800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits and overhead, as adjusted for inflation using the Bureau of Labor Statistics' CPI Inflation Calculator.

(b) the accuracy of the Commission's estimates of the burden of the proposed collection of information; (c) ways to enhance the quality, utility, and clarity of the information on respondents; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted by May 14, 2024.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number. Please direct your written comments to: Dave Bottom, Director/Chief Information Officer, Securities and Exchange Commission, c/o John Pezzullo, 100 F St. NE, Washington, DC 20549 or send an email to: [PRA\\_Mailbox@sec.gov](mailto:PRA_Mailbox@sec.gov).

Dated: March 12, 2024.

**Sherry R. Haywood,**

*Assistant Secretary.*

[FR Doc. 2024-05542 Filed 3-14-24; 8:45 am]

**BILLING CODE 8011-01-P**

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-99712; File No. SR-FICC-2024-801]

**Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Extension of Review Period of Advance Notice To Adopt a Minimum Margin Amount at GSD**

March 11, 2024.

Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 ("Clearing Supervision Act")<sup>1</sup> and Rule 19b-4(n)(1)(i) under the Securities Exchange Act of 1934 ("Act"),<sup>2</sup> notice is hereby given that on February 27, 2024, Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") the advance notice SR-FICC-2024-801 ("Advance Notice") as described in Items I, II and III below, which Items have been prepared primarily by the clearing agency.<sup>3</sup> The Commission is

<sup>1</sup> 12 U.S.C. 5465(e)(1).

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

<sup>3</sup> On February 27, 2024, FICC filed this Advance Notice as a proposed rule change (SR-FICC-2024-003) with the Commission pursuant to Section 19(b)(1) of the Act, 15 U.S.C. 78s(b)(1), and Rule 19b-4 thereunder, 17 CFR 240.19b-4. A copy of the

Continued

publishing this notice to solicit comments on the Advance Notice from interested persons and to extend the review period of the Advance Notice.

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

This Advance Notice consists of amendments to FICC's Government Securities Division ("GSD") Rulebook ("GSD Rules")<sup>4</sup> in order to (1) enhance the VaR Floor by incorporating a "Minimum Margin Amount" and (2) expand the application of the enhanced VaR Floor to include Margin Proxy, as described in greater detail below.

The proposed rule change would necessitate changes to the Methodology Document—GSD Initial Market Risk Margin Model (the "QRM Methodology"), which is filed as Exhibit 5b.<sup>5</sup> FICC is requesting confidential treatment of the QRM Methodology and has filed it separately with the Commission.<sup>6</sup>

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

In its filing with the Commission, the clearing agency 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. The clearing agency has prepared summaries, set forth in sections A and B below, of the most significant aspects of such statements.

proposed rule change is available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings).

<sup>4</sup> Terms not defined herein are defined in the GSD Rules, available at [www.dtcc.com/legal/rules-and-procedures](http://www.dtcc.com/legal/rules-and-procedures).

<sup>5</sup> The QRM Methodology was filed as a confidential exhibit as part of proposed rule change SR-FICC-2018-001 (the "VaR Filing"). See Securities Exchange Act Release No. 83362 (June 1, 2018), 83 FR 26514 (June 7, 2018) (SR-FICC-2018-001) ("VaR Filing Approval Order"). FICC also filed the VaR Filing proposal as an advance notice pursuant to Section 806(e)(1) of the Payment, Clearing, and Settlement Supervision Act of 2010 (12 U.S.C. 5465(e)(1) and Rule 19b-4(n)(1)(i) under the Act (17 CFR 240.19b-4(n)(1)(i)), with respect to which the Commission issued a Notice of No Objection. See Securities Exchange Act Release No. 83223 (May 11, 2018), 83 FR 23020 (May 17, 2018) (SR-FICC-2018-801). The QRM Methodology has been subsequently amended following the VaR Filing Approval Order. 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), 95605 (Aug. 25, 2022), 87 FR 53522 (Aug. 31, 2022) (SR-FICC-2022-005), 97342 (Apr. 21, 2023), 88 FR 25721 (Apr. 27, 2023) (SR-FICC-2023-003), and 99447 (Jan. 30, 2024), 89 FR 8260 (Feb. 6, 2024) (SR-FICC-2024-001).

<sup>6</sup> 17 CFR 240.24b-2.

#### (A) Clearing Agency's Statement on Comments on the Advance Notice 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. FICC reserves the right not to respond to any comments received.

#### (B) Advance Notice Filed Pursuant to Section 806(e) of the Clearing Supervision Act

##### Nature of the Proposed Change

FICC is proposing to enhance the VaR Floor by incorporating a Minimum Margin Amount in order to supplement the VaR model and improve its responsiveness and resilience to extreme market volatility. Specifically, FICC is proposing to modify the VaR Floor and the corresponding description in the GSD Rules to incorporate a Minimum Margin Amount. In addition, FICC is proposing to expand the application of the enhanced VaR Floor to include Margin Proxy. The proposed change would necessitate changes to the QRM Methodology.

FICC has observed extreme market volatility in the fixed income market due to monetary policy changes, inflation, and recession fears. The extreme market volatility has led to greater risk exposures for FICC. Specifically, the extreme market volatilities during the two arguably most stressful market periods, *i.e.*, the COVID period during March of 2020 and the successive interest rate hikes that began in March 2022, have led to market price changes that exceeded the VaR model's projections, which yielded insufficient VaR Charges. As a result, FICC's VaR backtesting metrics fell below the performance target due to unprecedented levels of extreme market volatility. This highlighted the need for FICC to enhance its VaR model so that it can better respond to extreme market volatility.

In order to better manage its risk exposures during extreme market volatility events, FICC is proposing to adopt a Minimum Margin Amount that would be applied as a minimum volatility calculation to ensure that FICC calculates sufficient margin to cover its risk exposures, particularly during extreme market volatility. The proposed Minimum Margin Amount would be incorporated into the VaR Floor to supplement the VaR model and enhance its responsiveness to extreme market

volatility. As proposed, the Minimum Margin Amount is designed to improve the margin backtesting performance during periods of heightened market volatility by maintaining a VaR Charge that is appropriately calibrated to reflect the current market volatility. The proposed Minimum Margin Amount aims to enhance backtesting coverage when there are potential VaR model performance challenges, particularly when securities price changes significantly exceed those implied by the VaR model risk factors, as observed during the recent periods of extreme market volatility. FICC believes the proposed Minimum Margin Amount would provide a more reliable estimate for the portfolio risk level when current market conditions significantly deviate from historical observations.

The proposed Minimum Margin Amount would be determined using historical price returns to represent risk along with amounts calculated (i) using a filtered historical simulation approach, (ii) using a haircut method, and (iii) to incorporate other risk factors. By using a filtered historical simulation approach in which historical returns are scaled to current market volatility, the proposed Minimum Margin Amount would operate as a floor to the VaR Charge to improve the responsiveness of the VaR model to extreme volatility. Because the use of historical price return-based risk representation is not dependent on any sensitivity data vendor, it would allow the proposed Minimum Margin Amount to also operate as a floor to the Margin Proxy and improve the responsiveness of Margin Proxy to extreme volatility.

As a result of this proposal, Members may experience increases in their Required Fund Deposits to the Clearing Fund. Based on an impact study conducted by FICC, on average, at the Member level, the proposed Minimum Margin Amount would have increased the SOD VaR Charge by approximately \$22.45 million, or 17.69%, and the noon VaR Charge by approximately \$23.22 million, or 17.44%, over a 2-year impact study period.

#### Background

FICC, through GSD, serves as a central counterparty and provider of clearance and settlement services for transactions in the U.S. government securities, as well as repurchase and reverse repurchase transactions involving U.S. government securities.<sup>7</sup> As part of its

<sup>7</sup> GSD also clears and settles certain transactions on securities issued or guaranteed by U.S. government agencies and government sponsored enterprises.

market risk management strategy, FICC manages its credit exposure to Members by determining the appropriate Required Fund Deposit to the Clearing Fund and monitoring its sufficiency, as provided for in the GSD Rules.<sup>8</sup> The Required Fund Deposit serves as each Member's margin.

The objective of a Member's Required Fund Deposit is to mitigate potential losses to FICC associated with liquidating a Member's portfolio in the event FICC ceases to act for that Member (hereinafter referred to as a "default").<sup>9</sup> The aggregate amount of all Members' Required Fund Deposit constitutes the Clearing Fund. FICC would access the Clearing Fund should a defaulting Member's own Required Fund Deposit be insufficient to satisfy losses to FICC caused by the liquidation of that Member's portfolio.

FICC regularly assesses market and liquidity risks as such risks relate to its margin methodologies to evaluate whether margin levels are commensurate with the particular risk attributes of each relevant product, portfolio, and market. For example, FICC employs daily backtesting to determine the adequacy of each Member's Required Fund Deposit.<sup>10</sup> FICC compares the Required Fund Deposit<sup>11</sup> for each Member with the simulated liquidation gains/losses,

using the actual positions in the Member's portfolio(s) and the actual historical security returns. A backtesting deficiency occurs when a Member's Required Fund Deposit would not have been adequate to cover the projected liquidation losses and highlights exposure that could subject FICC to potential losses in the event that a Member defaults.

FICC investigates the cause(s) of any backtesting deficiencies and determines if there is an identifiable cause of repeat backtesting deficiencies. FICC also evaluates whether multiple Members may experience backtesting deficiencies for the same underlying reason.

Pursuant to the GSD Rules, each Member's Required Fund Deposit amount consists of a number of applicable components, each of which is calculated to address specific risks faced by FICC, as identified within the GSD Rules.<sup>12</sup> These components include the VaR Charge, Blackout Period Exposure Adjustment, Backtesting Charge, Holiday Charge, Margin Liquidity Adjustment Charge, special charge, and Portfolio Differential Charge.<sup>13</sup> The VaR Charge generally comprises the largest portion of a Member's Required Fund Deposit amount.

#### VaR Charge

The VaR Charge is based on the potential price volatility of unsettled positions using a sensitivity-based Value-at-Risk (VaR) methodology. The VaR methodology provides an estimate of the possible losses for a given portfolio based on: (1) confidence level, (2) a time horizon and (3) historical market volatility. The VaR methodology is intended to capture the risks related to market price that are associated with the Net Unsettled Positions in a Member's Margin Portfolios. This risk-based margin methodology is designed to project the potential losses that could occur in connection with the liquidation of a defaulting Member's Margin Portfolio, assuming a Margin Portfolio would take three days to liquidate in normal market conditions. The projected liquidation gains or losses are used to determine the amount of the VaR Charge to each Margin Portfolio, which is calculated to capture the market price risk<sup>14</sup> associated with each

Member's Margin Portfolio(s) at a 99% confidence level.

FICC's VaR model is designed to provide a margin calculation that covers the market risk in a Member's Margin Portfolio. The VaR model calculates the risk profile of each Member's Margin Portfolio by applying certain representative risk factors to measure the degree of responsiveness of the Margin Portfolio's value to the changes of these risk factors over a historical lookback period of at least 10 years that may be supplemented with an additional stressed period.

The VaR model has been shown to perform well in low to moderate volatility markets. From January 2013 to March 2020, the VaR model has generally performed above the 99% performance target, with deterioration in backtesting coverage only during the two arguably most stressful market periods, *i.e.*, the COVID period during March of 2020 and the successive interest rate hikes that began in March 2022. The market events during these two stressful periods, including monetary policy changes, inflation and recession fears, have resulted in significant market volatility in the fixed income market that exceeded the 99-percentile of the observed historical data set. Specifically, the extreme market volatilities during these two periods have led to market price changes that exceeded the VaR model's projections, which yielded insufficient VaR Charges. As a result, FICC's VaR backtesting metrics fell below the performance target due to unprecedented levels of extreme market volatility. This highlighted the need for FICC to enhance its VaR model so that it can better respond to extreme market volatility. Accordingly, FICC is proposing changes to the VaR Floor that FICC believes would mitigate the risk of potential underperformance of its VaR model under extreme market volatility.

#### Current VaR Floor

On June 1, 2018, the Commission approved FICC's VaR Filing to make changes to GSD's method of calculating a Member's Required Fund Deposit amount, including the VaR Charge.<sup>15</sup> The VaR Filing amended the definition of VaR Charge to, among other things, incorporate the VaR Floor.<sup>16</sup> FICC established the VaR Floor to address the risk that in a long/short portfolio the VaR model could calculate a VaR Charge that is erroneously low where

<sup>8</sup> See GSD Rule 4 (Clearing Fund and Loss Allocation), *supra* note 4. FICC's market risk management strategy is designed to comply with Rule 17Ad-22(e)(4) under the Act, where these risks are referred to as "credit risks." 17 CFR 240.17Ad-22(e)(4).

<sup>9</sup> The GSD Rules identify when FICC may cease to act for a Member and the types of actions FICC may take. For example, FICC may suspend a firm's membership with FICC or prohibit or limit a Member's access to FICC's services in the event that Member defaults on a financial or other obligation to FICC. See GSD Rule 21 (Restrictions on Access to Services) of the GSD Rules, *supra* note 4.

<sup>10</sup> The Model Risk Management Framework ("Model Risk Management Framework") sets forth the model risk management practices of FICC and states that Value at Risk ("VaR") and Clearing Fund requirement coverage backtesting would be performed on a daily basis or more frequently. See Securities Exchange Act Release Nos. 81485 (Aug. 25, 2017), 82 FR 41433 (Aug. 31, 2017) (SR-FICC-2017-014), 84458 (Oct. 19, 2018), 83 FR 53925 (Oct. 25, 2018) (SR-FICC-2018-010), 88911 (May 20, 2020), 85 FR 31828 (May 27, 2020) (SR-FICC-2020-004), 92380 (July 13, 2021), 86 FR 38140 (July 19, 2021) (SR-FICC-2021-006), 94271 (Feb. 17, 2022), 87 FR 10411 (Feb. 24, 2022) (SR-FICC-2022-001), and 97890 (July 13, 2023), 88 FR 46287 (July 19, 2023) (SR-FICC-2023-008).

<sup>11</sup> Members may be required to post additional collateral to the Clearing Fund in addition to their Required Fund Deposit amount. See *e.g.*, Section 7 of GSD Rule 3 (Ongoing Membership Requirements), *supra* note 4 (providing that adequate assurances of financial responsibility of a member may be required, such as increased Clearing Fund deposits). For backtesting comparisons, FICC uses the Required Fund Deposit amount, without regard to the actual, total collateral posted by the member to the GSD Clearing Fund.

<sup>12</sup> *Supra* note 4.

<sup>13</sup> See GSD Rule 4 (Clearing Fund and Loss Allocation), Section 1b. *Supra* note 4.

<sup>14</sup> Market price risk refers to the risk that volatility in the market causes the price of a security to change between the execution of a trade and settlement of that trade. This risk is sometimes also referred to as volatility risk.

<sup>15</sup> See VaR Filing Approval Order, *supra* note 5.

<sup>16</sup> The term "VaR Floor" is currently defined within the definition of VaR Charge. See GSD Rule 1 (Definitions), *supra* note 4.

the gross market value of unsettled positions in a Member's portfolio is high and the cost of liquidation in the event of the Member default is also high. This is likely to occur when the VaR model applies substantial risk offsets among long and short unsettled positions in different classes of securities that have a high degree of historical price correlation.<sup>17</sup> When this high degree of historical price correlations does not apply as a result of changing market conditions, the VaR Charge derived from the VaR model can be inadequate, and the VaR Floor would then be applied by FICC to mitigate such risk.

Currently, the VaR Floor is based upon the market value of the gross unsettled positions in the Member's portfolio. The VaR Floor is determined by multiplying the absolute value of the sum of 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. For 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 for such group by product and remaining maturity. For mortgage-backed securities, such percentage shall be a fixed percentage that is no less than 0.05%.<sup>18</sup>

The current VaR Floor is not designed to address the risk of potential underperformance of the VaR model under extreme market volatility.

**Incorporate a Minimum Margin Amount Into the VaR Floor**

In order to mitigate the risk of potential underperformance of its VaR model under extreme market volatility, FICC proposes to incorporate a Minimum Margin Amount into the VaR Floor to supplement the VaR model and enhance its responsiveness to extreme market volatility. FICC believes this proposal would complement and improve the VaR model performance during stressed market conditions. Specifically, FICC believes this proposal would improve the margin backtesting performance during periods of heightened market volatility by maintaining a VaR Charge that is appropriately calibrated to reflect the current market volatility.

<sup>17</sup> As an example, certain securities may have highly correlated historical price returns, but if market conditions were to substantially change, these historical correlations could break down, leading to model-generated offsets that could not adequately capture a portfolio's risk.

<sup>18</sup> See "VaR Charge" definition in GSD Rule 1 (Definitions). *Supra* note 4.

FICC is proposing to introduce a new calculation called the "Minimum Margin Amount" to complement the existing VaR Floor in the GSD Rules. The Minimum Margin Amount would enhance backtesting coverage when there are potential VaR model performance challenges, particularly when securities price changes significantly exceed those implied by the VaR model risk factors, as observed during the recent periods of extreme market volatility. FICC believes the proposed Minimum Margin Amount would provide a more reliable estimate for the portfolio risk level when current market conditions significantly deviate from historical observations.

The Minimum Margin Amount would be defined in the GSD Rules as, with respect to each Margin Portfolio, a minimum volatility calculation for specified Net Unsettled Positions of a Netting Member as of the time of such calculation. The proposed definition would provide that the Minimum Margin Amount shall use historical price returns to represent risk<sup>19</sup> and be calculated as the sum of the following: (a) amounts calculated using a filtered historical simulation ("FHS") approach<sup>20</sup> to assess volatility by scaling historical market price returns to current market volatility, with market volatility being measured by applying exponentially weighted moving average to the historical market price returns with a decay factor between 0.93 and 0.99, as determined by FICC from time to time based on sensitivity analysis, macroeconomic conditions, and/or backtesting performance, (b) amounts calculated using a haircut method to measure the risk exposure of those securities that lack sufficient historical price return data, (c) amounts calculated to incorporate risks related to (i) repo interest volatility ("repo interest

<sup>19</sup> This proposed approach is referred to as the "price return-based risk representation" in the QRM Methodology. Given the availability and accessibility of historical price returns data, FICC believes the proposed approach would help minimize and diversify FICC's risk exposure from external data vendors.

<sup>20</sup> The FHS method differs from the historical simulation method by incorporating the volatilities of historical price returns as a crucial element. In particular, the FHS method constructs the filtered historical price returns in two steps: first, "devolatilizing" the historical price returns by dividing them by a volatility estimate for the day of the price return, and second, "revolatilizing" the devolatilized price returns by multiplying them by a volatility estimate based on the current market. For additional background on the FHS method, see Filtered historical simulation Value-at-Risk models and their competitors, Pedro Gurrola-Perez and David Murphy, Bank of England, March 2015, at [www.bankofengland.co.uk/working-paper/2015/filtered-historical-simulation-value-at-risk-models-and-their-competitors](http://www.bankofengland.co.uk/working-paper/2015/filtered-historical-simulation-value-at-risk-models-and-their-competitors).

volatility charge")<sup>21</sup> and (ii) transaction costs related to bid-ask spread in the market that could be incurred when liquidating a portfolio ("bid-ask spread risk charge").<sup>22</sup> In addition, the proposed definition would require FICC to provide Members with at a minimum one Business Day advance notice of any change to the decay factor via an Important Notice.<sup>23</sup>

FICC is proposing to revise the definition of the VaR Floor to incorporate the Minimum Margin Amount, such that the VaR Floor would be the greater of (i) the VaR Floor Percentage Amount and (ii) the Minimum Margin Amount.

The "VaR Floor Percentage Amount" would be the new defined term used to describe the current VaR Floor percentage calculation in the GSD Rules. This rule change is not proposing to change the VaR Floor percentage or the manner in which this component is calculated.

As proposed, the Minimum Margin Amount would be utilized as the VaR Charge for a Member's Margin Portfolio when it is greater than the current VaR Charge of the Margin Portfolio and the VaR Floor Percentage Amount.

Under the proposed changes to the QRM Methodology, the Minimum Margin Amount would use a price return-based risk representation (*i.e.*, use historical price returns to represent risk)<sup>24</sup> and be calculated as the sum of (i) amounts calculated using a FHS method that scales historical market price returns to current market volatility, (ii) amounts calculated using a haircut method for securities that lack sufficient historical price return data,

<sup>21</sup> The "repo interest volatility charge" is a component of the VaR Charge that is designed to address repo interest volatility. The repo interest volatility charge is calculated based on internally constructed repo interest rate indices. This rule change is proposing to also include the repo interest volatility charge as a component of the Minimum Margin Amount; however, it is not proposing to change the repo interest volatility charge or the manner in which this component is calculated.

<sup>22</sup> The "bid-ask spread risk charge" is a component of the VaR Charge that is designed to address transaction costs related to bid-ask spread in the market that could be incurred when liquidating a portfolio. This rule change is proposing to also include the bid-ask spread risk charge as a component of the Minimum Margin Amount; however, it is not proposing to change the bid-ask spread risk charge or the manner in which this component is calculated.

<sup>23</sup> Although the QRM Methodology is being submitted as a confidential Exhibit 5b to this proposal due to its proprietary content, FICC makes available to Members a Value-at-Risk (VaR) calculator that can be used to estimate their Clearing Fund requirements based on their portfolios.

<sup>24</sup> *Supra* note 19.

and (iii) amounts calculated to incorporate additional risk factors.

#### FHS Method

Following the FHS method, FICC would first construct historical price returns using certain mapped fixed income securities benchmarks. As proposed, the mapped fixed income securities benchmarks to be used with the FHS method when calculating the Minimum Margin Amount in the QRM Methodology would be Bloomberg Treasury indexes for U.S. Treasury and agency securities, Bloomberg TIPS indexes for Treasury Inflation-Protected Securities (“TIPS”), and to-be-announced (“TBA”) securities for mortgage-backed securities (“MBS”) pools. These benchmarks were selected because their price movements generally closely track those of the securities mapped to them and that their price history is generally readily available and accessible.

After constructing historical price returns, FICC would estimate a market volatility associated with each historical price return by applying exponentially weighted moving average (“EWMA”) to the historical price returns. The historical price returns are then “devolatilized” by dividing them by the corresponding EWMA volatilities to obtain the residual returns. The residual returns are then “revolatilized” by multiplying them by the current EWMA volatility to obtain the filtered returns.

The filtered return time series are then used to simulate the profits and losses of a Member’s Margin Portfolio and derive the volatility of the Margin Portfolio using the standard historical simulation approach. In particular, each security that is in a Member’s Margin Portfolio would be mapped to a respective fixed income securities benchmark, as applicable, based on the security’s asset class and remaining maturity. The filtered returns of the benchmark are used as the simulated returns of the mapped security to calculate the simulated profits and losses of a Member’s Margin Portfolio. The Minimum Margin Amount is then calculated as the 99-percentile of the simulated portfolio loss.

#### Haircut Method

Occasionally, a Member’s Margin Portfolio(s) contain classes of securities that reflect market price changes that are not consistently related to historical price moves. The value of these securities is often uncertain because the securities’ market volume varies widely, thus the price histories are limited. Because the volume and price information for such securities are not

robust, the FHS method would not generate Minimum Margin Amounts that adequately reflect the risk profile of such securities. Accordingly, the proposed changes to the QRM Methodology would provide that the Minimum Margin Amount would use a haircut method to assess the market risk of those securities that are more difficult to simulate, for example, because of thin trading history.

Specifically, the proposed haircut method would be used for MBS pools that are not TBA securities eligible, floating rate notes and U.S. Treasury/agency securities with remaining time to maturities of less than or equal to one year.

A haircut method would also be used to size up the basis risk between an agency security and the mapped U.S. Treasury index to supplement the historical market price moves generated by the FHS method for agency securities to reflect any residual risks between agency securities and the mapped fixed income securities benchmarks, *i.e.*, Bloomberg Treasury indexes. Similarly, a haircut method would be used to size up the MBS pool/TBA basis risk to address the residual risk for using TBA price returns as proxies for MBS pool returns used in the FHS method.

#### Minimum Margin Amount Calculation

FICC is proposing to modify the QRM Methodology to specify that the Minimum Margin Amount would use a price return-based risk representation and be calculated per Member Margin Portfolio as the sum of (i), (ii), and (iii):

##### (i) FHS Method

(a) the amount calculated using historical market price returns of mapped fixed income securities benchmarks derived based on the FHS method.

##### (ii) Haircut Method

(a) the haircut charge for MBS pools that are not TBA securities eligible,  
(b) the supplemental haircut charge for agency securities,

(c) the haircut charge for floating rate notes and U.S. Treasury/agency securities with remaining time to maturities of less than or equal to one year, and

(d) the supplemental basis haircut charge for mortgage pool securities.

##### (iii) Additional Risk Factors

(a) the repo interest volatility charge,<sup>25</sup> and  
(b) the bid-ask spread risk charge.<sup>26</sup>

<sup>25</sup> *Supra* note 21.

<sup>26</sup> *Supra* note 22.

The mapped fixed income securities benchmarks, historical market price returns, parameters and volatility assessments to be used to calculate the Minimum Margin Amount would be determined by FICC from time to time in accordance with FICC’s model risk management practices and governance set forth in the Clearing Agency Model Risk Management Framework.<sup>27</sup>

#### Minimum Margin Amount Parameters

The proposed Minimum Margin Amount uses a lookback period for the filtered historical simulation and a decay factor for calculating the EWMA volatility of the historical prices returns.

In particular, the lookback period of the proposed Minimum Margin Amount is the same as the lookback period used for the VaR model, which is 10 years, plus, to the extent applicable, a stressed period. Consistent with the VaR methodology outlined in the QRM Methodology and pursuant to the model performance monitoring required under the Model Risk Management Framework,<sup>28</sup> the lookback period would be analyzed to evaluate its sensitivity and impact to the model performance.

The decay factor in general affects (i) whether and how the Minimum Margin Amount would be invoked, (ii) the peak level of margin increase or the degree of procyclicality, and (iii) how quickly the margin would fall back to pre-stress levels. Similar to the lookback period, the decay factor of the proposed Minimum Margin Amount would also be analyzed to evaluate its sensitivity and impact to the model performance pursuant to the model performance monitoring required under the Model Risk Management Framework.<sup>29</sup> The decay factor would be, as proposed, between 0.93 and 0.99, and any update thereto is expected to be an infrequent event and would typically happen only when there is an unprecedented market volatility event which resulted in risk exposures to FICC that cannot be adequately mitigated by the then calibrated decay factor. The decision to update the decay factor would be based on the above-mentioned sensitivity analysis with considerations to factors, such as the impact to the VaR Charges,

<sup>27</sup> See Model Risk Management Framework, *supra* note 10.

<sup>28</sup> The Model Risk Management Framework provides that all models undergo ongoing model performance monitoring and backtesting which is the process of (i) evaluating an active model’s ongoing performance based on theoretical tests, (ii) monitoring the model’s parameters through the use of threshold indicators, and/or (iii) backtesting using actual historical data/realizations to test a VaR model’s predictive power. *Supra* note 10.

<sup>29</sup> *Supra* note 28.

macroeconomic conditions, and/or backtesting performance. The initial decay factor for the Minimum Margin Amount calculation would be 0.97 but may be adjusted as set forth above in accordance with FICC's model risk management practices and governance set forth in the Model Risk Management Framework.<sup>30</sup>

The Model Risk Management Framework would also require FICC to conduct ongoing model performance monitoring of the Minimum Margin Amount methodology.<sup>31</sup> FICC's current model performance monitoring practices would provide for sensitivity analysis of relevant model parameters and assumptions to be conducted monthly, or more frequently when markets display high volatility. In addition, FICC would monitor each Member's Required Fund Deposit and the aggregate Clearing Fund requirements versus the requirements calculated by the Minimum Margin Amount. Specifically, FICC would review and assess the robustness of the Required Fund Deposit inclusive of the Minimum Margin Amount by comparing the results versus the three-day profit and loss of each Member's Margin Portfolio based on actual market price moves. Based on the results of the sensitivity analysis and/or backtesting, FICC could consider adjustments to the Minimum Margin Amount, including changing the decay factor as appropriate. Any adjustment to the Minimum Margin Amount calculation would be subject to the model risk management practices and governance process set forth in the Model Risk Management Framework.<sup>32</sup>

#### Expand Application of VaR Floor To Include Margin Proxy

The GSD Margin Proxy methodology is currently deployed as an alternative volatility calculation in the event that the requisite vendor data used for the VaR model is unavailable for an extended period of time.<sup>33</sup> In circumstances where the Margin Proxy is applied by FICC, FICC is proposing to have the VaR Floor operate as a floor for the Margin Proxy. Specifically, FICC is proposing to expand the application of the VaR Floor to include Margin Proxy so that if the Margin Proxy, when deployed, is lower than the VaR Floor, then the VaR Floor would be utilized as

the VaR Charge with respect to a Member's Margin Portfolio. FICC believes this proposed change would enable Margin Proxy to be a more effective risk mitigant under extreme market volatility and heightened market stress, thereby enhancing the overall resilience of the FICC risk management.

#### Proposed GSD Rule Changes

In connection with incorporating the Minimum Margin Amount into the VaR Floor, FICC would modify the GSD Rules to:

I. Add a definition of "Minimum Margin Amount" and define it as, with respect to each Margin Portfolio, a minimum volatility calculation for specified Net Unsettled Positions of a Member as of the time of such calculation. The definition would provide that the Minimum Margin Amount shall use historical price returns to represent risk and be calculated as the sum of the following: (a) amounts calculated using a filtered historical simulation approach to assess volatility by scaling historical market price returns to current market volatility, with market volatility being measured by applying exponentially weighted moving average to the historical market price returns with a decay factor between 0.93 and 0.99, as determined by FICC from time to time based on sensitivity analysis, macroeconomic conditions, and/or backtesting performance, (b) amounts calculated using a haircut method to measure the risk exposure of those securities that lack sufficient historical price return data, and (c) amounts calculated to incorporate risks related to (i) repo interest volatility ("repo interest volatility charge") and (ii) transaction costs related to bid-ask spread in the market that could be incurred when liquidating a portfolio ("bid-ask spread risk charge"). In addition, the proposed definition would require FICC to provide Members with at a minimum one Business Day advance notice of any change to the decay factor via an Important Notice;

II. Add a definition of "VaR Floor Percentage Amount" which would be defined the same as the current calculation for the VaR Floor percentage with non-substantive modifications to reflect that the calculated amount is a separate defined term; and

III. Move the defined term VaR Floor out of the definition of VaR Charge and define it as the greater of (i) the VaR Floor Percentage Amount and (ii) the Minimum Margin Amount.

In connection with applying the VaR Floor to include Margin Proxy, FICC would modify the GSD Rules to revise

the definition of "VaR Charge" by adding a reference to the Margin Proxy with respect to the VaR Floor application and clarifying that VaR Charge is calculated at the Margin Portfolio-level.

#### Proposed QRM Methodology Changes

In connection with incorporating the Minimum Margin Amount into the VaR Floor, FICC would modify the QRM Methodology to:

I. Describe how the Minimum Margin Amount, as defined in the GSD Rules, would be calculated, including:

(i) Establishing mapped fixed income securities benchmarks for purposes of the calculation using historical market price returns of such securities with the FHS method;

(ii) Using a haircut method to assess the market risk of certain securities that are more difficult to simulate due to thin trading history; and

(iii) Detailing other risk factors that would be incorporated in the calculation.

II. Describe the developmental evidence and impacts to backtesting performance and margin charges relating to Minimum Margin Amount.

In connection with applying the VaR Floor to include Margin Proxy, FICC would modify the QRM Methodology to reflect that the Minimum Margin Amount would serve as a floor for the Margin Proxy.

In addition, FICC would modify the QRM Methodology to:

I. Make certain clarifying changes to the QRM Methodology to delete an out-of-date description of the Margin Proxy being used as an adjustment factor to the VaR,<sup>34</sup> enhance the description of the VaR Floor Percentage Amount, and update the list of key model parameters to reflect the Margin Proxy lookback period; and

II. Make certain technical changes to the QRM Methodology to renumber sections and tables, correct grammatical and typographical errors, delete out-of-date index names, and update certain formula notations and section titles as necessary.

#### Impact Study

FICC performed an impact study on Members' Margin Portfolios for the period beginning July 1, 2021 through June 30, 2023 ("Impact Study Period").<sup>35 36</sup> If the proposed rule

<sup>30</sup> See Model Risk Management Framework, *supra* note 10.

<sup>31</sup> See note 28.

<sup>32</sup> See Model Risk Management Framework, *supra* note 10.

<sup>33</sup> FICC may deem such data to be unavailable and deploy Margin Proxy when there are concerns with the quality of data provided by the vendor.

<sup>34</sup> FICC currently does not use Margin Proxy as an adjustment factor to the VaR and does not intend to use it as such in the future.

<sup>35</sup> GSD increased the minimum Required Fund Deposit for Members to \$1 million on Dec. 5, 2022 (see Securities Exchange Act Release No. 96136 (Oct. 24, 2022), 87 FR 65268 (Oct. 28, 2022) (SR-

changes<sup>37</sup> had been in place during the Impact Study Period compared to the existing GSD Rules, the aggregate average daily start-of-day (“SOD”) VaR Charges would have increased by approximately \$2.9 billion or 13.89%, the aggregate average daily noon VaR Charges would have increased by approximately \$3.03 billion or 14.05%, and the aggregate average daily Backtesting Charges would have decreased by approximately \$622 million or 64.46%.

The impact study indicated that if the proposed rule changes had been in place, the VaR model backtesting coverage would have increased from approximately 98.86% to 99.46% during the Impact Study Period. Specifically, if the proposed rule changes had been in place during the Impact Study Period, the number of VaR model backtesting deficiencies would have been reduced by 443 (from 843 to 400, or approximately 53%).

The impact study also indicated that if the proposed rule changes had been in place, overall margin backtesting coverage would have increased from approximately 98.87% to 99.33% during the Impact Study Period. Specifically, if the proposed rule changes had been in place during the Impact Study Period, the number of overall margin backtesting deficiencies would have been reduced by 280 (from 685 to 405, or approximately 41%) and the overall margin backtesting coverage for 94 Members (approximately 72% of the GSD membership) would have improved with 36 Members who were below 99% coverage would be brought back to above 99%.

FICC–2022–006)); however, for the purpose of this Impact Study, the \$1 million minimum Requirement Fund Deposit is assumed to be in effect for the entirety of the Impact Study period.

<sup>36</sup>GSD adopted a Portfolio Differential Charge (“PD Charge”) as an additional component to the GSD Required Fund Deposit on Oct. 30, 2023 (see Securities Exchange Act Release No. 98494 (Sep. 25, 2023), 88 FR 67394 (Sep. 29, 2023) (SR–FICC–2023–011)); however, for the purpose of this Impact Study, the PD Charge is assumed to be in effect for the entirety of the Impact Study period.

<sup>37</sup>Margin Proxy was not deployed during the Impact Study Period; however, if the proposed rule changes had been in place and the Margin Proxy were deployed during the Impact Study Period, the aggregate average daily SOD VaR Charges would have increased by approximately \$4.2 billion or 20.98%. The impact study also indicated that if the proposed rule changes had been in place and the Margin Proxy were deployed, the VaR model backtesting coverage would have increased from approximately 98.17% to 99.38% during the Impact Study Period. Specifically, if the proposed rule changes had been in place and the Margin Proxy were deployed during the Impact Study Period, the number of the VaR model backtesting deficiencies would have been reduced by 901 (from 1358 to 457, or approximately 66.3%).

Impacts to Members Over the Impact Study Period

On average, at the Member level, the proposed Minimum Margin Amount would have increased the SOD VaR Charge by approximately \$22.45 million, or 17.69%, and the noon VaR Charge by approximately \$23.22 million, or 17.44%, over the Impact Study Period. The largest average percentage increase in SOD VaR Charge for any Member would have been approximately 66.88%, or \$97,051 (0.21% of the Member’s average Net Capital),<sup>38</sup> and the largest average percentage increase in noon VaR Charge for any Member would have been approximately 64.79%, or \$61,613 (0.13% of the Member’s average Net Capital). The largest average dollar increase in SOD VaR Charge for any Member would have been approximately \$268.35 million (0.34% of the Member’s average Net Capital), or 19.05%, and the largest dollar increase in noon VaR Charge for any Member would have been approximately \$288.57 million (1.07% of the Member’s average Net Capital), or 13.65%. The top 10 Members based on the size of their average SOD VaR Charges and average noon VaR Charges would have contributed approximately 51.84% and 53.63% of the aggregated SOD VaR Charges and aggregated noon VaR Charges, respectively, during the Impact Study Period had the proposed Minimum Margin Amount been in place. The same Members would have contributed to 49.86% and 51.48% of the increase in aggregated SOD VaR Charges and aggregated noon VaR Charges, respectively, had the proposed Minimum Margin Amount been in place during the Impact Study Period.

Implementation Timeframe

FICC would implement the proposed rule changes by no later than 60 Business Days after the later of the approval of the related proposed rule change filing<sup>39</sup> and no objection to the advance notice by the Commission. FICC would announce the effective date of the proposed changes by an Important Notice posted to its website.

<sup>38</sup>The term “Net Capital” means, as of a particular date, the amount equal to the net capital of a broker or dealer as defined in SEC Rule 15c3–1(c)(2), or any successor rule or regulation thereto. See GSD Rule 1 (Definitions), *supra* note 4.

<sup>39</sup>FICC filed this advance notice as a proposed rule change (File No. SR–FICC–2024–003) with the Commission pursuant to Section 19(b)(1) of the Act, 15 U.S.C. 78s(b)(1), and Rule 19b–4 thereunder, 17 CFR 240.19b–4. A copy of the proposed rule change is available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings).

Anticipated Effect on and Management of Risk

FICC believes that the proposed change, which consists of a proposal to (i) modify the calculation of the VaR Floor and the corresponding description in the GSD Rules and QRM Methodology to incorporate a Minimum Margin Amount and (ii) expand the application of the VaR Floor to include Margin Proxy, would enable FICC to better limit its exposure to Members arising out of the activity in their portfolios. As stated above, the proposed change is designed to enhance the GSD VaR model performance and improve the backtesting coverage during periods of extreme market volatility. The proposed change would help ensure that FICC maintains an appropriate level of margin to address its risk management needs.

Specifically, the proposed rule change seeks to remedy potential situations that are described above where FICC’s VaR model and/or Margin Proxy, including the existing VaR Floor, does not respond effectively to increased market volatility and the VaR Charge amounts do not achieve a 99% confidence level. Therefore, by enabling FICC to collect margin that more accurately reflects the risk characteristics of its Members, the proposal would enhance FICC’s risk management capabilities.

By providing FICC with a more effective limit on its exposures, the proposed change would also mitigate risk for Members because lowering the risk profile for FICC would in turn lower the risk exposure that Members may have with respect to FICC in its role as a central counterparty. Further, the proposal is designed to meet FICC’s risk management goals and its regulatory obligations, as described below.

Consistency With the Clearing Supervision Act

Although Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 (“Clearing Supervision Act”) does not specify a standard of review for an advance notice, its stated purpose is instructive: to mitigate systemic risk in the financial system and promote financial stability by, among other things, promoting uniform risk management standards for systemically important financial market utilities and strengthening the liquidity of systemically important financial market utilities.<sup>40</sup>

<sup>40</sup>12 U.S.C. 5461(b).

FICC believes that the proposal is consistent with the Clearing Supervision Act, specifically with the risk management objectives and principles of Section 805(b), and with certain of the risk management standards adopted by the Commission pursuant to Section 805(a)(2), for the reasons described below.

(i) Consistency With Section 805(b) of the Clearing Supervision Act

Section 805(b) of the Clearing Supervision Act<sup>41</sup> states that the objectives and principles for the risk management standards prescribed under Section 805(a) shall be to, among other things, promote robust risk management, promote safety and soundness, reduce systemic risks, and support the stability of the broader financial system. For the reasons described below, FICC believes that the proposed changes in this advance notice are consistent with the objectives and principles of the risk management standards as described in Section 805(b) of the Clearing Supervision Act.

FICC is proposing to (i) modify the calculation of the VaR Floor and the corresponding description in the GSD Rules and QRM Methodology to incorporate a Minimum Margin Amount and (ii) expand the application of the VaR Floor to include Margin Proxy, both of which would enable FICC to better limit its exposure to Members arising out of the activity in their portfolios. FICC believes these proposed changes are consistent with promoting robust risk management because the changes would better enable FICC to limit its exposure to Members in the event of a Member default by collecting adequate prefunded financial resources to cover its potential losses resulting from the default of a Member and the liquidation of a defaulting Member's portfolio.

Specifically, the proposed Minimum Margin Amount would modify the VaR Floor to cover circumstances, such as extreme market volatility, where the current VaR Charge calculation and the VaR Floor are both lower than market price volatility from corresponding securities benchmarks. The proposed changes are designed to more effectively measure and address risk characteristics in situations where the risk factors used in the VaR method do not adequately predict market price movements and associated credit risk exposure. As reflected in backtesting studies, FICC believes the proposed changes would appropriately limit FICC's credit exposure to Members in the event that the VaR model yields too low a VaR

Charge in such situations. Such backtesting studies indicate that the aggregate average daily Backtesting Charges would have decreased by approximately \$622 million or 64.46% during the Impact Study Period, and the overall margin backtesting coverage (based on 12-month trailing backtesting) would have improved from approximately 98.87% to 99.33% during the Impact Study Period if the Minimum Margin Amount calculation had been in place. Improving the overall backtesting coverage level would help FICC ensure that it maintains an appropriate level of margin to address its risk management needs.

The use of the Minimum Margin Amount would reduce risk by allowing FICC to calculate the exposure in each portfolio using historical price returns to represent risk along with amounts calculated (i) using a FHS method that scales historical market price returns to current market volatility, (ii) using a haircut method for those securities that lack sufficient historical price return data, and (iii) to incorporate other risk factors. As reflected by backtesting studies during the Impact Study Period, using the FHS method would provide a more reliable estimate than the FICC VaR historical data set for the portfolio risk level when current market conditions deviate from historical observations. Adding the Minimum Margin Amount to the VaR Floor and applying the VaR Floor to include Margin Proxy would help to ensure that the risk exposure during periods of extreme market volatility is adequately captured in the VaR Charges. FICC believes that would help to ensure that FICC continues to accurately calculate and assess margin and in turn, collect sufficient margin from its Members and better enable FICC to limit its exposures that could be incurred when liquidating a portfolio.

The proposed change to expand the application of VaR Floor to include Margin Proxy would enable Margin Proxy to be a more effective risk mitigant under extreme market volatility and heightened market stress. By improving the effectiveness of Margin Proxy as a risk mitigant under extreme market volatility and heightened market stress would help ensure that the margin that FICC collects from Members is sufficient to mitigate the credit exposure presented by the Members.

For these reasons, FICC believes the proposed changes would help to promote GSD's robust risk management, which, in turn, is consistent with reducing systemic risks and supporting the stability of the broader financial

system, consistent with Section 805(b) of the Clearing Supervision Act.<sup>42</sup>

FICC also believes the changes proposed in this advance notice are consistent with promoting safety and soundness, which, in turn, is consistent with reducing systemic risks and supporting the stability of the broader financial system, consistent with Section 805(b) of the Clearing Supervision Act.<sup>43</sup> As described above, the proposed changes are designed to help ensure that FICC is collecting adequate prefunded financial resources to cover its potential losses resulting from the default of a Member and the liquidation of a defaulting Member's portfolio in times of extreme market volatility. Because the proposed changes would better position FICC to limit its exposures to Members in the event of a Member default, FICC believes the proposed changes are consistent with promoting safety and soundness, which, in turn, is consistent with reducing systemic risks and supporting the stability of the broader financial system.

(ii) Consistency With 805(a)(2) of the Clearing Supervision Act

Section 805(a)(2) of the Clearing Supervision Act<sup>44</sup> authorizes the Commission to prescribe risk management standards for the payment, clearing and settlement activities of designated clearing entities, like FICC, and financial institutions engaged in designated activities for which the Commission is the supervisory agency or the appropriate financial regulator. The Commission has adopted risk management standards under Section 805(a)(2) of the Clearing Supervision Act<sup>45</sup> and Section 17A of the Act<sup>46</sup> (the risk management standards are referred to as the "Covered Clearing Agency Standards").<sup>47</sup>

The Covered Clearing Agency Standards require registered clearing agencies to establish, implement, maintain, and enforce written policies and procedures that are reasonably designed to be consistent with the minimum requirements for their operations and risk management practices on an ongoing basis.<sup>48</sup> FICC believes that this proposal is consistent with Rules 17Ad-22(e)(4)(i) and (e)(6)(i), each promulgated under the Act,<sup>49</sup> for the reasons described below.

<sup>42</sup> *Id.*

<sup>43</sup> *Id.*

<sup>44</sup> 12 U.S.C. 5464(a)(2).

<sup>45</sup> *Id.*

<sup>46</sup> 15 U.S.C. 78q-1.

<sup>47</sup> 17 CFR 240.17Ad-22.

<sup>48</sup> *Id.*

<sup>49</sup> 17 CFR 240.17Ad-22(e)(4)(i) and (e)(6)(i).

<sup>41</sup> 12 U.S.C. 5464(b).



Rule 17Ad–22(e)(4)(i) under the Act<sup>50</sup> 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 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. As described above, FICC believes that the proposed changes would enable it to better identify, measure, monitor, and, through the collection of Members' Required Fund Deposits, manage its credit exposures to Members by maintaining sufficient resources to cover those credit exposures fully with a high degree of confidence. More specifically, as indicated by backtesting studies, implementation of a Minimum Margin Amount by changing the GSD Rules and QRM Methodology as described herein would allow FICC to limit its credit exposures to Members in the event that the current VaR model yields too low a VaR Charge for such portfolios and improve backtesting performance. As indicated by the backtesting studies, the aggregate average daily SOD VaR Charges would have increased by approximately \$2.90 billion or 13.89%, the aggregate average daily noon VaR Charges would have increased by approximately \$3.03 billion or 14.05%, the aggregate average daily Backtesting Charges would have decreased by approximately \$622 million or 64.46% during the Impact Study Period, and the overall margin backtesting coverage (based on 12-month trailing backtesting) would have improved from approximately 98.87% to 99.33% during the Impact Study Period if the Minimum Margin Amount calculation had been in place. By identifying and providing for appropriate VaR Charges, adding the Minimum Margin Amount to the VaR Floor would help to ensure that the risk exposure during periods of extreme market volatility is adequately identified, measured and monitored. Similarly, the proposed change to expand the application of VaR Floor to include Margin Proxy would enable Margin Proxy to be a more effective risk mitigant under extreme market volatility and heightened market stress. By improving the effectiveness of Margin Proxy as a risk mitigant under extreme market volatility and heightened market stress would help ensure that the margin that FICC collects from Members

is sufficient to mitigate the credit exposure presented by the Members. As a result, FICC believes that the proposal would enhance FICC's ability to effectively identify, measure and monitor its credit exposures and would enhance its ability to maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence, consistent with the requirements of Rule 17Ad–22(e)(4)(i) of the Act.<sup>51</sup>

Rule 17Ad–22(e)(6)(i) under the Act<sup>52</sup> 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. FICC believes that the proposed changes to adjust the VaR Floor to include the Minimum Margin Amount by changing the GSD Rules and QRM Methodology as described herein are consistent with the requirements of Rule 17Ad–22(e)(6)(i) cited above. The Required Fund Deposits are made up of risk-based components (as margin) that are calculated and assessed daily to limit FICC's credit exposures to Members. FICC is proposing changes that are designed to more effectively measure and address risk characteristics in situations where the risk factors used in the VaR method do not adequately predict market price movements. As reflected in backtesting studies, FICC believes the proposed changes would appropriately limit FICC's credit exposure to Members in the event that the VaR model yields too low a VaR Charge in such situations. Such backtesting studies indicate that the aggregate average daily SOD VaR Charges would have increased by approximately \$2.90 billion or 13.89%, the aggregate average daily noon VaR Charges would have increased by approximately \$3.03 billion or 14.05%, the aggregate average daily Backtesting Charges would have decreased by approximately \$622 million or 64.46% during the Impact Study Period, and the overall margin backtesting coverage (based on 12-month trailing backtesting) would have improved from approximately 98.87% to 99.33% during the Impact Study Period if the Minimum Margin Amount calculation had been in place. By identifying and providing for appropriate VaR Charges, adding the Minimum Margin Amount to

the VaR Floor would help to ensure that margin levels are commensurate with the risk exposure of each portfolio during periods of extreme market volatility. Similarly, the proposed change to expand the application of VaR Floor to include Margin Proxy would enable Margin Proxy to be a more effective risk mitigant under extreme market volatility and heightened market stress. By improving the effectiveness of Margin Proxy as a risk mitigant under extreme market volatility and heightened market stress would help ensure that the margin that FICC collects from Members is sufficient to mitigate the credit exposure presented by the Members. Overall, the proposed changes would allow FICC to more effectively address the risks presented by Members. In this way, the proposed changes enhance the ability of FICC to produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market. As such, FICC believes that the proposed changes are consistent with the requirements of Rule 17Ad–22(e)(6)(i) under the Act.<sup>53</sup>

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

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date that the proposed change was filed with the Commission or (ii) the date that any additional information requested by the Commission is received. The clearing agency shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission providing the clearing agency with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the advance notice is filed, or the date further information requested by the Commission is received, if the Commission notifies the clearing agency in writing that it does not object to the proposed change and authorizes the clearing agency to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

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

The proposal shall not take effect until all regulatory actions required

<sup>51</sup> *Id.*

<sup>52</sup> 17 CFR 240.17Ad–22(e)(6)(i).

<sup>53</sup> *Id.*

<sup>50</sup> 17 CFR 240.17Ad–22(e)(4)(i).

with respect to the proposal are completed.

#### IV. Solicitation of Comments

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

##### *Electronic Comments*

- Use the Commission's internet comment form ([www.sec.gov/rules/sro.shtml](http://www.sec.gov/rules/sro.shtml)); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2024-801 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-2024-801. This file number should be included on the subject line if email 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 ([www.sec.gov/rules/sro.shtml](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, 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 ([www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings)). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-FICC-2024-801 and should be submitted on or before April 5, 2024.

#### V. Date and Timing for Commission Action

Section 806(e)(1)(G) of the Clearing Supervision Act provides that FICC may implement the changes if it has not received an objection to the proposed changes within 60 days of the later of (i) the date that the Commission receives an advance notice or (ii) the date that any additional information requested by the Commission is received,<sup>54</sup> unless extended as described below.

Pursuant to Section 806(e)(1)(H) of the Clearing Supervision Act, the Commission may extend the review period of an advance notice for an additional 60 days, if the changes proposed in the advance notice raise novel or complex issues, subject to the Commission providing the clearing agency with prompt written notice of the extension.<sup>55</sup>

Here, as the Commission has not requested any additional information, the date that is 60 days after OCC filed the advance notice with the Commission is April 27, 2024. However, the Commission is extending the review period of the Advance Notice for an additional 60 days under Section 806(e)(1)(H) of the Clearing Supervision Act<sup>56</sup> because the Commission finds the Advance Notice is both novel and complex, as discussed below.

The Commission believes that the changes proposed in the Advance Notice raise novel and complex issues. Specifically, FICC developed this proposal in response to extreme market volatility experienced during the two arguably most stressed market periods, *i.e.*, the pandemic-related volatility in March 2020 and the successive interest rate hikes that began in March 2022. As noted above, these extreme market volatility events led to market price changes that exceeded the VaR model's projections, resulting in insufficient VaR Charges and poor backtesting metrics. Therefore, FICC has developed the proposal described in the Advance Notice to better manage its risk exposures during extreme market volatility events. Determining the appropriate method to address this particular set of circumstances in the context of FICC's margin model presents novel and complex issues.

Accordingly, the Commission, pursuant to Section 806(e)(1)(H) of the Clearing Supervision Act,<sup>57</sup> extends the review period for an additional 60 days so that the Commission shall have until June 26, 2024 to issue an objection or

non-objection to advance notice SR-FICC-2024-801.

All submissions should refer to File Number SR-FICC-2024-801 and should be submitted on or before April 5, 2024.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>58</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

[FR Doc. 2024-05487 Filed 3-14-24; 8:45 am]

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#### SECURITIES AND EXCHANGE COMMISSION

[SEC File No. 270-399, OMB Control No. 3235-0456]

#### Submission for OMB Review; Comment Request; Extension: Form 24F-2

*Upon Written Request, Copies Available From:* Securities and Exchange Commission, Office of FOIA Services, 100 F Street NE, Washington, DC 20549-2736.

Notice is hereby given that pursuant to the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520), the Securities and Exchange Commission (the "Commission") has submitted to the Office of Management and Budget a request for extension of the previously approved collection of information discussed below.

Rule 24f-2 (17 CFR 270.24f-2) under the Investment Company Act of 1940 (15 U.S.C. 80a) requires any open-end management companies ("mutual funds"), unit investment trusts ("UITs"), registered closed-end investment companies that make periodic repurchase offers under rule 23c-3 under the Investment Company Act [17 CFR 270.23c-3] ("interval funds"), or face-amount certificate companies (collectively, "funds") deemed to have registered an indefinite amount of securities to file, not later than 90 days after the end of any fiscal year in which it has publicly offered such securities, Form 24F-2 (17 CFR 274.24) with the Commission. Form 24F-2 is the annual notice of securities sold by funds that accompanies the payment of registration fees with respect to the securities sold during the fiscal year.

The Commission estimates that 2,074 funds file Form 24F-2 on the required annual basis. The average annual burden per respondent for Form 24F-2 is estimated to be four hours. The total annual burden for all respondents to

<sup>54</sup> 12 U.S.C. 5465(e)(1)(G).

<sup>55</sup> 12 U.S.C. 5465(e)(1)(H).

<sup>56</sup> *Id.*

<sup>57</sup> *Id.*

<sup>58</sup> 17 CFR 200.30-3(a)(91) and 17 CFR 200.30-3(a)(94).