Commission, 100 F Street NE, Washington, DC 20549–1090.

All submissions should refer to File Number SR–NYSE–2018–24. 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 (*http://www.sec.gov/rules/sro.shtml*). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR–NYSE–2018–24, and should be submitted on or before June 28, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[20]

Eduardo A. Aleman,

Assistant Secretary.

[FR Doc. 2018–12194 Filed 6–6–18; 8:45 am]

BILLING CODE 8011–01–P

[20] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–83362; File No. SR–FICC–2018–001]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, To Implement Changes to the Required Fund Deposit Calculation in the Government Securities Division Rulebook

June 1, 2018.

I. Introduction

The Fixed Income Clearing Corporation (''FICC'') filed with the U.S. Securities and Exchange Commission (''Commission'') on January 12, 2018 proposed rule change SR–FICC–2018–001 (''Proposed Rule Change'') pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Exchange Act'')[1] and Rule 19b–4 thereunder.[2] The Proposed Rule Change was published for comment in the **Federal Register** on February 1, 2018.[3] The Commission received eight comments on the proposal.[4] On March 14, 2018, the Commission issued an order instituting proceedings to determine whether to approve or disapprove the Proposed Rule Change.[5] On April 25, 2018, FICC filed Amendment No. 1 to the Proposed Rule Change (''Amendment No. 1'').[6] The Commission is publishing this notice to solicit comment on Amendment No. 1 from interested persons and to approve the Proposed Rule Change, as modified by Amendment No. 1, on an accelerated basis.

II. Description of the Proposed Rule Change

FICC proposes to change the FICC GSD Rulebook (''GSD Rules'')[7] to adjust GSD's method of calculating GSD netting members' (''Members'') margin.[8] Specifically, FICC proposes to (1) change GSD's method of calculating the Value-at-Risk (''VaR'') Charge component; (2) add a new component referred to as the ''Blackout Period Exposure Adjustment;'' (3) eliminate the existing Blackout Period Exposure Charge and the Coverage Charge components; (4) adjust the existing Backtesting Charge component to (i) include the backtesting deficiencies of certain GCF Repo Transaction[9] counterparties during the Blackout Period, and (ii) give GSD the ability to assess the Backtesting Charge on an intraday basis for all Members; and (5) adjust the calculation for determining

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

[2] 17 CFR 240.19b–4. FICC also filed the Proposed Rule Change as advance notice SR–FICC–2018–801 (''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 Exchange Act, 17 CFR 240.19b–4(n)(1)(i). Notice of Filing of the Advance Notice was published for comment in the **Federal Register** on March 2, 2018. Securities Exchange Act Release No. 82779 (February 26, 2018), 83 FR 9055 (March 2, 2018) (SR–FICC–2018–801). The Commission extended the deadline for its review period of the Advance Notice for an additional 60 days on March 7, 2018. Securities Exchange Act Release No. 82820 (March 7, 2018), 83 FR 10761 (March 12, 2018) (SR–FICC–2018–801). On April 25, 2018, FICC filed Amendment No.1 to the Advance Notice. *Available at https://www/sec/gov/comments/sr-ficc-2018-801/ficc2018801.htm.* The Commission issued a notice of filing of Amendment No. 1 and notice of no objection to the Advance Notice, as modified by Amendment No. 1, on May 11, 2018. Securities Exchange Act Release No. 83223 (May 11, 2018), 83 FR 23020 (May 17, 2018).

[3] Securities Exchange Act Release No. 82588 (January 26, 2018), 83 FR 4687 (February 1, 2018) (SR–FICC–2018–001).

[4] Letter from Robert E. Pooler, Chief Financial Officer, Ronin Capital LLC (''Ronin''), dated February 22, 2018, to Robert W. Errett, Deputy Secretary, Commission (''Ronin Letter I''); letter from Michael Santangelo, Chief Financial Officer, Amherst Pierpont Securities LLC (''Amherst''), dated February 22, 2018, to Brent J. Fields, Secretary, Commission (''Amherst Letter I''); letter from Timothy Cuddihy, Managing Director, FICC, dated March 19, 2018, to Robert W. Errett, Deputy Secretary, Commission (''FICC Letter I''); letter from James Tabacchi, Chairman, Independent Dealer and Trader Association (''IDTA''), dated March 29, 2018, to Eduardo A. Aleman, Assistant Secretary, Commission (''IDTA Letter''); letter from Michael Santangelo, Chief Financial Officer, Amherst Pierpont Securities LLC, dated April 4, 2018, to Brent J. Fields, Secretary, Commission (''Amherst Letter II''); letter from Levent Kahraman, Chief Executive Officer, KGS-Alpha Capital Markets (''KGS''), dated April 4, 2018, to Brent J. Fields, Secretary, Commission (''KGS Letter''); letter from Timothy Cuddihy, Managing Director, FICC, dated April 13, 2018, to Robert W. Errett, Deputy Secretary, Commission (''FICC Letter II''); and letter from Robert E. Pooler, Chief Financial Officer, Ronin, dated April 13, 2018, to Eduardo A. Aleman, Assistant Secretary, Commission (''Ronin Letter II''). Since the proposal contained in the Proposed Rule Change was also filed as an Advance Notice, *supra* note 2, the Commission is considering all public comments received on the proposal regardless of whether the comments were submitted to the Advance Notice or the Proposed Rule Change.

[5] *See* Securities Exchange Act Release No. 34–82876 (March 14, 2018), 83 FR 12229 (March 20, 2018) (SR–FICC–2018–001). The order instituting proceedings re-opened the comment period and extended the Commission's period of review of the Proposed Rule Change. *See id.*

[6] *Available at https://www.sec.gov/comments/sr-ficc-2018-001/ficc2018001.htm.* FICC filed related amendments to the related Advance Notice. *Supra* note 2.

[7] *Available at http://www.dtcc.com/legal/rules-and-procedures.*

[8] Notice, *supra* note 3, at 4688.

[9] GCF Repo Transactions refer to transactions made on FICC's GCF Repo Service that enable dealers to trade general collateral repos, based on rate, term, and underlying product, throughout the day, without requiring intra-day, trade-for-trade settlement on a Delivery-versus-Payment basis. *Id.*

the existing Excess Capital Premium for Broker Members, Inter-Dealer Broker Members, and Dealer Members.[10] In addition, FICC proposes to provide transparency with respect to GSD's existing authority to calculate and assess Intraday Supplemental Fund Deposit amounts.[11] The proposed QRM Methodology document would reflect the proposed VaR Charge calculation and the proposed Blackout Period Exposure Adjustment calculation.[12]

A. Changes to GSD's VaR Charge Component

FICC states that the changes proposed in the Proposed Rule Change are designed to improve GSD's current VaR Charge so that it responds more effectively to market volatility.[13] Specifically, FICC proposes to (1) replace GSD's current full revaluation approach with a sensitivity approach; [14] (2) employ the existing Margin Proxy as an alternative (*i.e.,* a back-up) VaR Charge calculation; [15] (3) use an evenly-weighted 10-year look-back period, instead of the current front-weighted one-year look-back period; (4) eliminate GSD's current augmented volatility adjustment multiplier; (5) utilize a haircut method for securities cleared by GSD that lack sufficient historical data; and (6) establish a VaR Floor calculation that would serve as a minimum VaR Charge for Members, as discussed below.[16]

For the proposed sensitivity approach to the VaR Charge, FICC would source sensitivity data and relevant historical risk factor time series data generated by an external vendor based on its econometric, risk, and pricing models.[17] FICC would conduct independent data checks to verify the accuracy and consistency of the data feed received from the vendor.[18] In the event that the external vendor is unable to provide the sourced data in a timely manner, FICC would employ its existing Margin Proxy as a back-up VaR Charge calculation.[19]

Additionally, FICC proposes to change the look-back period from a front-weighted one-year look-back to an evenly-weighted 10-year look-back period that would include, to the extent applicable, an additional stressed period. FICC states that the proposed extended look-back period would help to ensure that the historical simulation contains a sufficient number of historical market conditions.[20] In the event FICC observes that the 10-year look-back period does not contain a sufficient number of stressed market conditions, FICC would have the ability to include an additional period of historically observed stressed market conditions to a 10-year look-back period or adjust the length of look-back period.[21]

FICC also proposes to look at the historical changes of specific risk factors during the look-back period in order to generate risk scenarios to arrive at the market value changes for a given portfolio.[22] A statistical probability distribution would be formed from the portfolio's market value changes, and then the VaR Charge calculation would be calibrated to cover the projected liquidation losses at a 99 percent confidence level.[23] The portfolio risk sensitivities and the historical risk factor time series data would then be used by FICC's risk model to calculate the VaR Charge for each Member.[24]

FICC also proposes to eliminate the augmented volatility adjustment multiplier. FICC states that the multiplier would not be necessary because the proposed sensitivity approach would have a longer look-back period and the ability to include an additional stressed market condition to account for periods of market volatility.[25]

According to FICC, in the event that a portfolio contains classes of securities that do not have sufficient volume and price information available, a historical simulation approach would not generate VaR Charge amounts that reflect the risk profile of such securities.[26] Therefore, FICC proposes to calculate the VaR Charge for these securities by utilizing a haircut approach based on a market benchmark with a similar risk profile as the related security.[27] The proposed haircut approach would be calculated separately for U.S. Treasury/Agency securities and mortgage-backed securities.[28]

Finally, FICC proposes to adjust the existing calculation of the VaR Charge to include a VaR Floor, which would be the amount used as the VaR Charge when the sum of the amounts calculated

[10] Notice, *supra* note 3, at 4689.

[11] *Id.* Pursuant to the GSD Rules, FICC has the existing authority and discretion to calculate an additional amount on an intraday basis in the form of an Intraday Supplemental Clearing Fund Deposit. *See* GSD Rules 1 and 4, *supra* note 7.

[12] Notice, *supra* note 3, at 4689.

[13] *Id.* FICC proposes to change its calculation of GSD's VaR Charge because during the fourth quarter of 2016, FICC's current methodology for calculating the VaR Charge did not respond effectively to the market volatility that existed at that time. *Id.* As a result, the VaR Charge did not achieve backtesting coverage at a 99 percent confidence level and, therefore, yielded backtesting deficiencies beyond FICC's risk tolerance. *Id.*

[14] Notice, *supra* note 3, at 4690 GSD's proposed sensitivity approach is similar to the sensitivity approach that FICC's Mortgage-Backed Securities Division (''MBSD'') uses to calculate the VaR Charge for MBSD clearing members. *See* Securities Exchange Act Release No. 79868 (January 24, 2017) 82 FR 8780 (January 30, 2017) (SR–FICC–2016–007); Securities Exchange Act Release No. 79643 (December 21, 2016), 81 FR 95669 (December 28, 2016) (SR–FICC–2016–801).

[15] The Margin Proxy was implemented by FICC in 2017 to supplement the full revaluation approach to the VaR Charge calculation with a minimum VaR Charge calculation. Securities Exchange Act Release No. 80349 (March 30, 2017), 82 FR 16638 (April 5, 2016) (SR–FICC–2017–001); *see also* Securities Exchange Act Release No. 80341 (March 30, 2017), 82 FR 16644 (April 5, 2016) (SR–FICC–2017–801).

[16] *Id.*

[17] *See* Notice, *supra* note 3, at 4690. The following risk factors would be incorporated into GSD's proposed sensitivity approach: Key rate, convexity, implied inflation rate, agency spread, mortgage-backed securities spread, volatility, mortgage basis, and time risk factor. These risk factors are defined as follows:

- Key rate measures the sensitivity of a price change to changes in interest rates;
- convexity measures the degree of curvature in the price/yield relationship of key interest rates;
- implied inflation rate measures the difference between the yield on an ordinary bond and the yield on an inflation-indexed bond with the same maturity;
- agency spread is yield spread that is added to a benchmark yield curve to discount an Agency bond's cash flows to match its market price;
- mortgage-backed securities spread is the yield spread that is added to a benchmark yield curve to discount a to-be-announced (''TBA'') security's cash flows to match its market price;
- volatility reflects the implied volatility observed from the swaption market to estimate fluctuations in interest rates;
- mortgage basis captures the basis risk between the prevailing mortgage rate and a blended Treasury rate; and
- time risk factor accounts for the time value change (or carry adjustment) over the assumed liquidation period. *Id.*

The above-referenced risk factors are similar to the risk factors currently utilized in MBSD's sensitivity approach; however, GSD has included other risk factors that are specific to the U.S. Treasury securities, Agency securities and mortgage-backed securities cleared through GSD. *Id.* Concerning U.S. Treasury securities and Agency securities, FICC would select the following risk factors: Key rates, convexity, agency spread, implied inflation rates, volatility, and time. *Id.* For mortgage-backed securities, each security would be mapped to a corresponding TBA forward contract and FICC would use the risk exposure analytics for the TBA as an estimate for the mortgage-backed security's risk exposure analytics. *Id.* FICC would use the following risk factors to model a TBA security: Key rates, convexity, mortgage-backed securities spread, volatility, mortgage basis, and time. *Id.* To account for differences between mortgage-backed securities and their corresponding TBA, FICC would apply an additional basis risk adjustment. *Id.*

[18] Notice, *supra* note 3, at 4690.

[19] *See* Notice, *supra* note 3, at 4692. In the event that the data used for the sensitivity approach is unavailable for a period of more than five days, FICC proposes to revert back to the Margin Proxy as an alternative VaR Charge calculation. *Id.*

[20] Notice, *supra* note 3, at 4691.

[21] *Id.*

[22] Notice, *supra* note 3, at 4690.

[23] *Id.*

[24] *Id.*

[25] Notice, *supra* note 3, at 4692.

[26] Notice, *supra* note 3, at 4693.

[27] *Id.*

[28] *Id.*

by the proposed sensitivity approach and haircut method is less than the proposed VaR Floor.[29] The VaR Floor would be calculated as the sum of (1) a U.S. Treasury/Agency bond margin floor [30] and (2) a mortgage-backed securities margin floor.[31]

B. Addition of the Blackout Period Exposure Adjustment Component

FICC proposes to add a new component to GSD's margin calculation—the Blackout Period Exposure Adjustment.[32] FICC states that the Blackout Period Exposure Adjustment would be calculated to address risks that could result from overstated values of mortgage-backed securities that are pledged as collateral for GCF Repo Transactions [33] during a Blackout Period.[34] A Blackout Period is the period between the last business day of the prior month and the date during the current month upon which a government-sponsored entity that issues mortgage-backed securities publishes its updated Pool Factors.[35] The proposed Blackout Period Exposure Adjustment would result in a charge that either increases a Member's VaR Charge or a credit that decreases the VaR Charge.[36]

C. Elimination of the Blackout Period Exposure Charge and Coverage Charge Components

FICC proposes to eliminate the existing Blackout Period Exposure Charge component from GSD's margin calculation.[37] The Blackout Period Exposure Charge only applies to Members with GCF Repo Transactions that have two or more backtesting deficiencies during the Blackout Period and whose overall 12-month trailing backtesting coverage falls below the 99 percent coverage target.[38] FICC would eliminate this charge because the proposed Blackout Period Exposure Adjustment would apply to all Members with GCF Repo Transactions collateralized with mortgage-backed securities during the Blackout Period.[39]

FICC also proposes to eliminate the existing Coverage Charge component from GSD's margin calculation.[40] FICC would eliminate the Coverage Charge because, as FICC states, the proposed sensitivity approach would provide overall better margin coverage, rendering the Coverage Charge unnecessary.[41]

D. Adjustment to the Backtesting Charge Component

FICC proposes to amend GSD's existing Backtesting Charge component of its margin calculation to (1) include the backtesting deficiencies of certain Members during the Blackout Period and (2) give GSD the ability to assess the Backtesting Charge on an intraday basis.[42]

Currently, the Backtesting Charge does not apply to Members with mortgage-backed securities during the Blackout Period because such Members would be subject to a Blackout Period Exposure Charge.[43] In coordination with its proposal to eliminate the Blackout Period Exposure Charge, FICC proposes to adjust the applicability of the Backtesting Charge.[44] Specifically, FICC proposes to apply the Backtesting Charge to Members with backtesting deficiencies that also experience backtesting deficiencies that are attributed to the Member's GCF Repo Transactions collateralized with mortgage-backed securities during the Blackout Period within the prior 12-month rolling period.[45]

FICC also proposes to adjust the Backtesting Charge to apply to Members that experience backtesting deficiencies during the trading day because of such Member's intraday trading activities.[46] The Intraday Backtesting Charge would be assessed on Members with portfolios that experience at least three intraday backtesting deficiencies over the prior 12-month period and would generally equal a Member's third largest historical intraday backtesting deficiency.[47]

E. Adjustment to the Excess Capital Premium Charge

FICC proposes to adjust GSD's calculation for determining the Excess Capital Premium. Currently, GSD assesses the Excess Capital Premium when a Member's VaR Charge exceeds the Member's Excess Capital.[48] Only Members that are brokers or dealers are required to report Excess Net Capital figures to FICC while other Members report net capital or equity capital, based on the type of regulation to which the Member is subject.[49] If a Member is not a broker or dealer, FICC uses the net capital or equity capital in order to calculate each Member's Excess Capital Premium.[50] FICC proposes to move to a net capital measure for broker Members, inter-dealer broker Members, and dealer Members.[51] FICC states that such a change would make the Excess Capital Premium for those Members more consistent with the equity capital measure that is used for other Members in the Excess Capital Premium calculation.[52]

F. Additional Transparency Surrounding the Intraday Supplemental Fund Deposit

Separate from the above changes to GSD's margin calculation, FICC proposes to provide transparency in the GSD Rules with respect to GSD's existing calculation of the Intraday Supplemental Fund Deposit.[53] FICC proposes to provide more detail in the GSD rules surrounding both GSD's calculation of the Intraday Supplemental Fund Deposit charge and its determination of whether to assess the charge.[54]

FICC calculates the Intraday Supplemental Fund Deposit by tracking three criteria for each Member.[55] The first criterion, the ''Dollar Threshold,'' evaluates whether a Member's Intraday VaR Charge equals or exceeds a set

[29] *Id.*

[30] *Id.* The U.S. Treasury/Agency bond margin floor would be calculated by mapping each U.S. Treasury/Agency security to a tenor bucket, then multiplying the gross positions of each tenor bucket by its bond floor rate, and summing the results. *Id.* The bond floor rate of each tenor bucket would be a fraction (initially set at 10 percent) of an index-based haircut rate for such tenor bucket. *Id.*

[31] Notice, *supra* note 3, at 4693. The mortgage-backed securities margin floor would be calculated by multiplying the gross market value of the total value of mortgage-backed securities in a Member's portfolio by a designated amount, referred to as the pool floor rate, (initially set at 0.05 percent). *Id.*

[32] Notice, *supra* note 3, at 4694. The proposed Blackout Period Exposure Adjustment would be calculated by (1) projecting an average pay-down rate of mortgage loan pools (based on historical pay down rates) for the government sponsored enterprises (Fannie Mae and Freddie Mac) and the Government National Mortgage Association (Ginnie Mae), respectively, then (2) multiplying the projected pay-down rate by the net positions of mortgage-backed securities in the related program, and (3) summing the results from each program. *Id.*

[33] *Id.*

[34] *Id.*

[35] *Id.* Pool Factors are the percentage of the initial principal that remains outstanding on the mortgage loan pool underlying a mortgage-backed security, as published by the government-sponsored entity that is the issuer of such security. *Id.*

[36] Notice, *supra* note 3, at 4694.

[37] *Id.*

[38] *Id.*

[39] *Id.*

[40] *Id.*

[41] Notice, *supra* note 3, at 4695.

[42] *Id.*

[43] *Id.*

[44] *Id.*

[45] *Id.* Additionally, during the Blackout Period, the proposed Blackout Period Exposure Adjustment Charge, as described in Section I.C, above, would be applied to all applicable Members. *Id.*

[46] *Id.*

[47] *Id.*

[48] Notice, *supra* note 3, at 4696. The term ''Excess Capital'' means Excess Net Capital, net assets, or equity capital as applicable, to a Member based on its type of regulation. GSD Rules, Rule 1, *supra* note 7.

[49] *Id.*

[50] *Id.*

[51] *Id.*

[52] *Id.*

[53] *Id.*

[54] *Id.*

[55] *Id.*

dollar amount when compared to the VaR Charge that was included in the most recent margin collection.[56] The second criterion, the ''Percentage Threshold,'' evaluates whether the Intraday VaR Charge equals or exceeds a percentage increase of the VaR Charge that was included in the most recent margin collection.[57] The third criterion, the ''Coverage Target,'' evaluates whether a Member is experiencing backtesting results below a 99 percent confidence level.[58] In the event that a Member's additional risk exposure breaches all three criteria, FICC assesses an Intraday Supplemental Fund Deposit.[59] FICC also assesses an Intraday Supplemental Fund Deposit if, under certain market conditions, a Member's Intraday VaR Charge breaches both the Dollar Threshold and the Percentage Threshold.[60]

G. Description of the QRM Methodology

The QRM Methodology document provides the methodology by which FICC would calculate the VaR Charge, with the proposed sensitivity approach, as well as other components of the Members' margin calculation.[61] The QRM Methodology document specifies (i) the model inputs, parameters, assumptions and qualitative adjustments; (ii) the calculation used to generate margin amounts; (iii) additional calculations used for benchmarking and monitoring purposes; (iv) theoretical analysis; (v) the process by which the VaR methodology was developed as well as its application and limitations; (vi) internal business requirements associated with the implementation and ongoing monitoring of the VaR methodology; (vii) the model change management process and governance framework (which includes the escalation process for adding a stressed period to the VaR Charge calculation); (viii) the haircut methodology; (ix) the Blackout Period Exposure Adjustment calculations; (x) intraday margin calculation; and (xi) the Margin Proxy calculation.[62]

H. Description of Amendment No. 1

In Amendment No. 1, FICC proposes three things. First, FICC proposes to stagger the implementation of the proposed Blackout Period Exposure Adjustment and the proposed removal of the Blackout Period Exposure Charge.[63] Specifically, on a date that is approximately three weeks after the later of the Commission's order approving the Proposed Rule Change, as modified by Amendment No. 1, or its notice of no objection to the related Advance Notice, as modified by Amendment No. 1 (''Implementation Date''), FICC would charge Members only 50 percent of any amount calculated under the proposed Blackout Period Exposure Adjustment, while, at the same time, decreasing by 50 percent any amount charge under the Blackout Period Exposure Charge.[64] Then, no later than September 30, 2018, FICC would increase any amount charged under the Blackout Period Exposure Adjustment to 75 percent, while, at the same time, decreasing by 75 percent any amount charge under the Blackout Period Exposure Charge.[65] Finally, no later than December 31, 2018, FICC would increase any amount charged under the Blackout Period Exposure Adjustment to 100 percent, while, at the same time, eliminating the Blackout Period Exposure Charge. FICC states that it is proposing this amendment to address concerns raised by several Members that the implementation of the proposed Blackout Period Exposure Adjustment would have a material impact on their liquidity planning and margin charge.[66] FICC states that the staggered implementation would give Members the opportunity to assess and further prepare for the impact of the proposed Blackout Period Exposure Adjustment. FICC states the proposed VaR Charge calculation and the existing Blackout Period Exposure Charge would appropriately mitigate the potential mortgage-backed securities pay-down on a short-term basis, given FICC's assessment of mortgage-backed securities pay-down projections for this calendar year.[67]

Second, FICC proposes to amend the implementation date for the remainder of the proposed changes contained in the Proposed Rule Change.[68] Specifically, FICC proposes that such remaining changes would become operative on the Implementation Date, as opposed to the originally proposed 45 business days after the later of the Commission's order approving the Proposed Rule Change, as modified by Amendment No. 1, or notice of no objection to the related Advance Notice, as modified by Amendment No. 1.[69] FICC states that it is proposing this amendment because FICC is primarily concerned that the look-back period that is currently used in calculating the VaR Charge under the Margin Proxy may not calculate sufficient margin amounts to cover GSD's exposure to a defaulting Member.[70]

Third, FICC proposes to correct an incorrect description of the calculation of the Excess Capital Premium that appears once in the narrative to the Proposed Rule Change, as well as in the corresponding location in the Exhibit 1A to the Proposed Rule Change.[71] Specifically, FICC proposes to change the term ''Required Fund Deposit'' to ''VaR Charge'' in the description at issue, as ''Required Fund Deposit'' was incorrectly used in that instance.[72]

III. Solicitation of Comments on Amendment No. 1

Interested persons are invited to submit written data, views and arguments concerning whether Amendment No. 1 is consistent with the Exchange Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's internet comment form (*http://www.sec.gov/rules/sro.shtml*); or
- Send an email to *rule-comments@sec.gov.* Please include File Number SR–FICC–2018–001 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–FICC–2018–001. 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 (*http://www.sec.gov/rules/sro.shtml*). Copies of the submission, all subsequent amendments, all written statements with respect to the Proposed Rule Change that are filed with the Commission, and all written communications relating to the Proposed Rule Change between the Commission and any person, other than those that may be withheld from the

[56] *Id.*
[57] Notice, *supra* note 3, at 4697.
[58] *Id.*
[59] *Id.*
[60] *Id.*
[61] Notice, *supra* note 3, at 4698.
[62] *Id.*
[63] Amendment No. 1, *supra* note 6.
[64] *Id.*
[65] *Id.*
[66] *Id.*
[67] *Id.*
[68] *Id.*
[69] *Id.*
[70] *Id.*
[71] *Id.*
[72] *Id.*

public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC's website (*http://dtcc.com/legal/sec-rule-filings.aspx*). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR–FICC–2018–001 and should be submitted on or before June 22, 2018.

IV. Discussion and Commission Findings

Section 19(b)(2)(C) of the Exchange Act [73] directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the requirements of the Exchange Act and the rules and regulations thereunder applicable to such organization. After carefully considering the Proposed Rule Change, as modified by Amendment No. 1, and all comments received, the Commission finds that the Proposed Rule Change, as modified by Amendment No. 1, is consistent with the Exchange Act and the rules and regulations thereunder applicable to FICC.[74] In particular, as discussed below, the Commission finds that the Proposed Rule Change, as modified by Amendment No. 1, is consistent with Sections 17A(b)(3)(F) [75] and (I) of the Exchange Act,[76] as well as Rules 17Ad–22(e)(4)(i),[77] (6)(i),[78] (ii),[79] (iv),[80] (v),[81] (vi)(B),[82] and (23)(ii) under the Exchange Act.[83]

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

Section 17A(b)(3)(F) of the Exchange Act requires, in part, that the rules of a clearing agency be designed to, among other things, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.[84]

The Commission believes that the changes proposed in the Proposed Rule Change, as modified by Amendment No. 1, are designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Exchange Act.[85] First, as described above, FICC currently calculates the VaR Charge component of each Member's margin using a VaR Charge calculation that relies on a full revaluation approach. FICC proposes to instead implement a sensitivity approach to its VaR Charge calculation, with, at minimum, an evenly-weighted 10-year look-back period. The proposed sensitivity approach would leverage an external vendor's expertise in supplying market risk attributes (*i.e.,* sensitivity data) used to calculate the VaR Charge. Relying on such sensitivity data with a 10-year look-back period would help correct deficiencies in FICC's existing VaR Charge calculation, thus enabling FICC to better account for market risk in calculating the VaR Charge and better limit its credit exposure to Members.

Second, as described above, FICC proposes to implement the existing Margin Proxy as a back-up methodology to the proposed sensitivity approach to the VaR Charge calculation. This proposed change would help FICC to better limit its credit exposure to Members by continuing to calculate each Member's VaR Charge in the event that FICC experiences a data disruption with the vendor that supplies the sensitivity data.

Third, as described above, FICC proposes to eliminate the augmented volatility adjustment multiplier from its current VaR Charge calculation. This proposed change would enable FICC to remove a component from the VaR Charge calculation that would no longer be needed on account of the proposed 10-year look-back period that has the option of an additional stress period.

Fourth, as described above, FICC proposes to implement a haircut method for securities with inadequate historical pricing data and, thus, lack sufficient data to generate a historical simulation that adequately reflects the risk profile of such securities under the proposed sensitivity approach to FICC's VaR Charge calculation. Employing a haircut on such securities would help FICC limit its credit exposure to Members that transact in the securities by establishing a way to better capture their risk profile.

Fifth, as described above, FICC proposes to implement a VaR Floor. The proposed VaR Floor would be triggered in the event that the proposed sensitivity VaR model calculates a VaR Charge that is too low because of offsets applied by the model from certain offsetting long and short positions. In other words, the VaR Floor would serve as a backstop to the proposed sensitivity approach to FICC's VaR Charge calculation, which would help ensure that FICC continues to limit its credit exposure to Members. Altogether, these proposed changes to the VaR Charge component of the margin calculation would enable FICC to view and respond more effectively to market volatility by attributing market price moves to various risk factors and more effectively limiting FICC's credit exposure to Members in market conditions that reflect a rapid decrease in market price volatility levels.

In addition to these changes to the VaR Charge component of the margin calculation, FICC proposes to make a number of changes to other components of the margin calculation. Specifically, as described above, FICC proposes to (1) add the Blackout Period Exposure Adjustment component to FICC's margin calculation to help address risks that could result from overstated values of mortgage-backed securities that are pledged as collateral for GCF Repo Transactions during a Blackout Period; (2) make changes to the existing Backtesting Charge component to help ensure that the charge will apply to (i) all Members that experience backtesting deficiencies attributable to the Member's GCF Repo Transactions that are collateralized with mortgage-backed securities during the Blackout Period, and (ii) all Members that experience backtesting deficiencies during the trading day because of such Member's intraday trading activities; (3) provide more detail in the GSD Rules regarding FICC's calculation of the existing Intraday Supplemental Fund Deposit charge and its determination of whether to assess the charge; and (4) remove the Coverage Charge and Blackout Period Exposure Charge components because the risk these components addressed would be addressed by the other proposed changes to the margin calculation, specifically the proposed

[73] 15 U.S.C. 78s(b)(2)(C).

[74] In approving this Proposed Rule Change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. *See* 15 U.S.C. 78c(f). The Commission addresses comments about economic effects of the Proposed Rule Change, including competitive effects, below.

[75] 15 U.S.C. 78q–1(b)(3)(F).

[76] 15 U.S.C. 78q–1(b)(3)(I).

[77] 17 CFR 240.17Ad–22(e)(4)(i).

[78] 17 CFR 240.17Ad–22(e)(6)(i).

[79] 17 CFR 240.17Ad–22(e)(6)(ii).

[80] 17 CFR 240.17Ad–22(e)(6)(iv).

[81] 17 CFR 240.17Ad–22(e)(6)(v).

[82] 17 CFR 240.17Ad–22(e)(6)(vi)(B).

[83] 17 CFR 240.17Ad–22(e)(23)(ii).

[84] 15 U.S.C. 78q–1(b)(3)(F).

[85] *Id.*

sensitivity approach to FICC's VaR Charge calculation and the proposed Blackout Period Exposure Adjustment component, respectively.

In Amendment No. 1, as described above, FICC proposes to (1) stagger the implementation of the proposed Blackout Period Exposure Adjustment and the proposed removal of the Blackout Period Exposure Charge in response to commenters; (2) accelerate the implementation date for the remainder of the proposed changes contained in the Proposed Rule Change, in order address concerns with the existing VaR Charge calculation sooner; and (3) correct an incorrect description of the calculation of the Excess Capital Premium in the originally filed materials.

Taken together, the above mentioned proposed changes to the components of the margin calculation would enhance FICC's current method for calculating each Member's margin. This enhancement, in turn, would enable FICC to produce margin levels more commensurate with the risks associated with its Members' portfolios in a broader range of scenarios and market conditions, and, thus, more effectively cover its credit exposure to its Members. In addition, the Proposed Rule Change is designed to help FICC mitigate losses that Member default could cause to FICC and its non-defaulting Members.

By better limiting FICC's credit exposure to Members, the proposed changes are designed to help ensure that, in the event of a Member default, FICC has collected sufficient margin from the defaulted Member to manage the default, so that non-defaulting Members would not be exposed to mutualized losses as a result of the default. By helping to limit non-defaulting Members' exposure to mutualized losses, the proposal is designed to help assure the safeguarding of securities and funds that are in FICC's custody or control. As such, the Proposed Rule Change, as modified by Amendment No. 1, is designed to help promote the safeguarding of securities and funds in FICC's custody and control. Therefore, the Commission believes that the Proposed Rule Change, as modified by Amendment No. 1, is consistent with Section 17A(b)(3)(F) of the Exchange Act.[86]

B. Consistency With Section 17A(b)(3)(I) of the Exchange Act

Section 17A(b)(3)(I) of the Exchange Act requires that the rules of a clearing agency do not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act.[87] As discussed above, FICC is proposing a number of changes to the way it calculates margin collected from Members—a key tool that FICC uses to mitigate potential losses to FICC associated with liquidating a Member's portfolio in the event of a Member default. FICC states that the proposed changes are designed to assure the safeguarding of securities and funds that are in the custody or control of FICC, consistent with Section 17A(b)(3)(F) of the Exchange Act,[88] because the proposed changes would enable FICC to better limit its credit exposure to Members arising out of the activity in Members' portfolios.[89] FICC states that the proposed changes would collectively work to help ensure that FICC calculates and collects adequate margin from its Members.[90]

However, several commenters stated that some, if not all, of the proposed changes would impose an undue burden on competition. Specifically, Ronin states that the proposed sensitivity VaR model requires more margin of its Members than is necessary, and thus, would unduly impose a competitive burden on Members that have higher costs of capital.[91] Ronin further states that over-margining also unfairly exposes smaller Members to greater potential risk of loss should one of the largest Members' default.[92] Ronin also states the proposed changes would make it less economic for non-bank Members to participate in centralized clearing.[93]

Similarly, IDTA states that that the proposed changes would disproportionately result in greater increases in margin for non-Bank Members on a percentage basis and consequently would impose an unnecessary burden on competition.[94] Specifically, IDTA states the proposed changes would result in a material increase to some Members' margin due to the proposed change to the VaR Charge and also due to the compounding effect the new VaR Charge has on other components of the margin calculation.[95] IDTA notes that FICC illustrates that the statistical impact of the Proposed Rule Change resulted in 40 percent of Members having a net reduction to margin and 31 percent of Members having between no change and a 10 percent increase in margin.[96] IDTA states that the remaining 29 percent of Members therefore saw an increase of over 10 percent to the margin.[97] IDTA adds that six members of the IDTA that submitted data saw, on average, an 85 percent increase under the proposed changes compared to the existing FICC margin calculation.[98] IDTA states that this disproportionality places competitive and financial burdens on non-Bank Members that have a higher cost of funds and access to fewer pools of liquidity than those available to Bank Members.[99] IDTA also states it is possible that these burdens could adversely affect the diversity of liquidity across fixed income markets during times when both market participants and regulators want this diversity.[100]

Two commenters state that not utilizing cross-margining in the GSD margin calculation creates a burden on competition.[101] Specifically, Amherst states that the lack of cross-margining inflates the margin requirements and that the ''inflation, in turn, could distort the liquidity profile'' of Members.[102] Additionally, KGS states that not having a cross-margining process for positions in GSD and MBSD will have a distortive effect on GSD's margining system, producing ''burdensome double charges.'' [103] KGS also states that the absence of cross-margining will impose a disproportionate and adverse impact on all GSD members other than ''the very largest banks and dealers'' and that the burdens on competition that would be imposed are significant.[104] Finally, KGS states that absent cross-margining for common Members of GSD and MBSD, ''markets that are free and open to all competitors with the greatest spreading of risk'' cannot be achieved.'' [105]

Two commenters state that FICC's use of a 10-year look-back period and an additional stressed period in the VaR Charge calculation would impose a burden on competition.[106] Ronin first notes that FICC acknowledges that the proposed changes might impose a competitive burden.[107] Ronin then

[86] *Id.*

[87] 15 U.S.C. 78q–1(b)(3)(I).

[88] *See* 15 U.S.C. 78q–1(b)(3)(F).

[89] Notice, *supra* note 3, at 4698.

[90] *Id.*

[91] Ronin Letter at 5.

[92] *Id.*

[93] *Id.*

[94] IDTA Letter at 14.

[95] IDTA Letter at 3.

[96] *Id.*

[97] *Id.*

[98] *Id.*

[99] IDTA Letter at 1.

[100] *Id.*

[101] *See* Amherst Letter II; KGS Letter.

[102] Amherst Letter II at 4.

[103] KGS Letter at 2.

[104] *Id.*

[105] *Id.*

[106] *See* Ronin Letter; IDTA Letter.

[107] Ronin Letter at 5.

states that the overall effect of this proposed rule change is to ''treat every day as if the market was in the midst of a financial crisis'' and to require more margin from Members at all times.[108] Ronin contends that this ''blunt approach'' of requiring more margin by utilizing ''statistical bias is discriminatory and imposes an undue competitive burden on firms with a higher cost of capital.'' [109] Similarly, IDTA states that the 10-year look-back period and additional stressed period result in the unnecessary collection of margin, which creates harmful costs that disproportionately burden non-Bank Members as compared to larger Bank Members.[110]

Two commenters state that the proposed Excess Capital Premium charge would impose a burden on competition.[111] Specifically, Amherst states that broker-dealer Members would see a material impact from the adoption of the proposed sensitivity approach because it would significantly increase the numerator in the formula and, thereby, increase the likelihood of triggering the Excess Capital Premium charge.[112] Similarly, IDTA states that the proposed use of Net Capital in the denominator in the Excess Capital Premium would result in a discriminatory change that arbitrarily penalizes Dealer Members as many Members who currently do not have an Excess Capital Premium charge would end up having the charge if the Proposed Rule Change is approved.[113]

Amherst further states that the Excess Capital Premium calculation would impose an additional competitive burden on broker-dealer Members, as non broker-dealer Member's Excess Capital used in the measurement of any Excess Capital Premium may not be based on net worth after reductions for haircuts or other non-allowable asset deductions similar to broker-dealer Member requirements.[114] Similarly, IDTA states that using Net Capital as the Excess Capital figure also would result in discrimination against Dealer Members as compared to Bank Members because Bank Members' Excess Capital is based on equity without any reduction for positions, while Dealer Members are required to use Net Capital, a measure of net worth after reductions for haircuts on positions.[115]

One commenter states that the Blackout Period Exposure Adjustment would result in a burden on competition.[116] Specifically, IDTA states that serious flaws exist in the current Blackout Period Exposure Charge and the proposed Blackout Period Exposure Adjustment would result in both an inaccurate measurement of risk and excessive margin charges that are harmful to Members, particularly non-Bank Members that have a relative higher cost of funds than other Members.[117] IDTA states that the proposed Blackout Period Exposure Adjustment assumes 100 percent probability of a GCF Repo Service counterparty default across all Members. IDTA states that it does not believe a credit risk model would account for such a high probability of loss and suggests applying a credit risk weighting to the Blackout Period Exposure Adjustment.[118]

In response to commenters concerns, generally, FICC states that the proposed changes are necessary to ensure that its margin methodology would appropriately address the risks presented by Members' clearing portfolios.[119] Specifically, in response to concerns regarding the proposed sensitivity approach, FICC states that the proposed sensitivity approach integrates observed risk factor changes over current and historical market conditions to more effectively respond to current market price moves that may not be adequately reflected in the current methodology for calculating the VaR Charge as supplemented by the Margin Proxy.[120] With this in mind, FICC states that Ronin's assertion that the proposed sensitivity approach ''simply requires increased margin from Members'' is inaccurate.[121] FICC notes it proposes to eliminate the augmented volatility adjustment multiplier and Coverage Component because these components would have the effect of unnecessarily increasing margin amounts.[122] Additionally, FICC notes that its impact study reveals that the proposed methodology does not simply increase the margin requirements and the impacts vary based on Members' clearing portfolios and the market volatility that exists at that time.[123] Statistically, FICC states that 71 percent of all Members will have a 10 percent or less increase in margin under the proposed changes and 40 percent of all Members will have no increase.[124]

In response to Ronin and IDTA concerns, discussed above, that smaller, non-bank Members would see greater increases in margin as a result of the proposed changes, FICC states that the proposed sensitivity approach is based on a risk factor approach for securities in a Member's portfolio to calculate such Member's VaR Charge.[125] FICC states that if Members have similar portfolios, the impact of the proposed VaR Charge calculation, together with the other proposed changes to the margin calculation, would be similar.[126] FICC further states that the largest impact of the proposal is for those Members with mortgage-backed securities (''MBS'') concentrations.[127] FICC acknowledges that while smaller Members with MBS concentrations would be impacted more, many of these Members have less diversified portfolios; thus, the effect of the margin calculation on conventional MBS would be more pronounced.[128] FICC notes that the impact of the proposal would be determined by a Member's portfolio composition rather than a Member ''type,'' as a result, Members with lower MBS concentrations would experience smaller impacts from the proposal.[129] Therefore, FICC believes that the proposal does not create a burden on any particular size or type of Member, such as non-bank Members, that does not result from the necessary and appropriate risk mitigation of the underlying securities in each Member's portfolio.[130]

In response to the commenters concerns, discussed above, regarding the need for utilizing cross-margining in the GSD margin calculation, FICC notes that it operates under two divisions—GSD and MBSD—and each has its own rules and members.[131] FICC states that as a registered clearing agency, it is subject to the requirements that are contained in the Exchange Act and in the Commission's regulations and rules thereunder.[132] Further, FICC states it must ensure that the GSD Rules and the MBSD Rules, individually, are consistent with the Exchange Act.[133] Therefore, FICC states that because it must comply with the Exchange Act for

[108] *Id.*

[109] *Id.*

[110] IDTA Letter at 7, 11.

[111] *See* Amherst Letter; IDTA Letter.

[112] Amherst Letter II at 4.

[113] IDTA Letter at 9.

[114] Amherst Letter II at 4.

[115] IDTA Letter at 9.

[116] *Id.* at 12.

[117] *Id.*

[118] *Id.* at 13.

[119] FICC Letter I at 4.

[120] *Id.* at 3.

[121] *Id.*

[122] *Id.*

[123] *Id.*

[124] *Id.*

[125] *Id.*

[126] *Id.*

[127] FICC Letter II at 5.

[128] *Id.* at 6.

[129] *Id.*

[130] *Id.*

[131] *Id.* at 12.

[132] *Id.*

[133] *Id.*

GSD and MBSD separately, FICC disagrees with Amherst's statement that FICC's failure to implement a cross-margining arrangement would be inconsistent with the requirements of Rule 17Ad–22(e)(6) under the Exchange Act.[134]

Nevertheless, FICC agrees that data sharing and cross-margining arrangements would be beneficial to its membership.[135] FICC notes it has and will continue to explore data sharing and cross-margining opportunities.[136] FICC also states it will continue to develop a framework with the Chicago Mercantile Exchange (''CME'') that will enhance FICC's existing cross-margining arrangement with CME.[137]

In response to the commenters concerns, discussed above, suggesting FICC's proposed use of a 10-year look-back period and an additional stressed period in the VaR Charge calculation would be unnecessary and biased, FICC states that the proposed changes to extend the look-back period and add an additional stressed period would help to ensure that the historical simulation contains a sufficient number of historical market conditions (including but not limited to stressed market conditions) that are necessary to calculate margin amounts that achieve a 99 percent confidence level.[138] FICC further states that because VaR models typically rely on historical data to estimate the probability distribution of potential market prices, FICC believes that a longer look-back period will typically produce more stable VaR estimates that adequately reflect extreme market moves.[139] FICC notes that, as part of its model validation report, FICC performed a benchmark analysis of its calculation of the VaR Charge which included the 10-year look-back period and two alternative look-back periods—a five-year look-back period and a one-year look-back period.[140] FICC notes that the model validation report compared the rolling one-year backtesting performance for the one-year, five-year, and 10-year look-back periods using all Member portfolios for the period of January 1, 2013 through April 28, 2017.[141] FICC states that the 10-year look-back period (which included a stress period) provides backtesting coverage above 99 percent while the five-year look-back period and the one-year look-back period do not.[142] Therefore, FICC states that the proposed look-back period provides the appropriate margin coverage for GSD's exposures.[143]

In response to the commenters concerns, discussed above, regarding the Excess Capital Premium, FICC states that for a majority of Members, the proposed VaR Charge calculation would be higher than the current VaR Charge calculation excluding the Margin Proxy and that the higher VaR Charge could result in a higher Excess Capital Premium for some Members.[144] However, FICC believes that this increase is appropriate for the exposure that the Excess Capital Premium is designed to mitigate.[145] FICC notes that even with the potential increase in the proposed VaR Charge, the majority of Members would not incur the Excess Capital Premium.[146] Additionally, FICC believes that the proposed change to Net Capital for the Excess Capital Premium would reduce the impact to Members.[147] Statistically, FICC states that, during a test period, the proposed change to utilize Net Capital would reduce the Excess Capital Premium from 188 to 159 instances.[148] Further, FICC states that as a result of the proposed change to utilize Net Capital (instead of the existing practice of using the Excess Net Capital) in the Excess Capital Premium calculation, the Member with the largest number of instances would have had a 27 percent reduction in the number of instances of Excess Capital Premium and, on average, an 82 percent decrease in the dollar value of the charge on the days such Excess Capital Premium occurred.[149] Also, FICC believes that the proposed change to the Excess Capital Premium would benefit a small set of Members and potentially lower the Excess Capital Premium for Members that exhibit fluctuations in their Excess Net Capital because the proposed change would be based on Net Capital that may be more predictable.[150]

In response to the commenters concerns, discussed above, regarding the Blackout Period Exposure Adjustment, FICC states that the proposed Blackout Period Exposure Adjustment is appropriate at the intraday collection cycle on the last business day of the month to mitigate exposure that begins on the first business day of the following month.[151] FICC believes that Blackout Period Exposure Adjustment collections that occur after the MBS collateral pledge would not mitigate the risk that a Member defaults after the collateral is pledged but before such Member satisfies the next day's margin.[152] FICC believes the proposed Blackout Period Exposure Adjustment is necessary because it would help to ensure that FICC maintains a sufficient margin that covers FICC's current and future exposure to changes in MBS collateral from pay-down exposure from its Members, at a 99 percent confidence level.[153] In response to IDTA's suggestion that a probability of default approach would be more appropriate, FICC states that such an approach would provide insufficient margin coverage to maintain a 99 percent confidence level.[154]

As a general matter, the Commission acknowledges that a proposal to enhance FICC's VaR model, such as this proposal, could entail increased margin charges to some Members that would be borne by those Members and market participants more generally. The Commission understands that the impact of the cost of meeting an increased margin requirement would depend, in part, on each Member's specific business model and that some Members could satisfy the increase at a lower cost than others. As a result, the proposed changes contained in the Proposed Rule Change that would result in an increased margin charge could impose higher costs on some Members relative to others because of those Members' business choices. These higher relative burdens may weaken certain Members' competitive positions relative to other Members. However, as discussed below, the Commission believes that any competitive burden imposed by the proposed changes would not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act.[155]

As discussed above, during the fourth quarter of 2016, FICC's current methodology for calculating the VaR Charge did not respond effectively to the market volatility that existed at that time. As a result, the VaR Charge did not achieve backtesting coverage at a 99 percent confidence level and, therefore, yielded backtesting deficiencies beyond FICC's risk tolerance. To address this

[134] *Id.*

[135] *Id.*

[136] *Id.*

[137] *Id.*

[138] FICC Letter I at 4.

[139] *Id.*

[140] FICC Letter II at 9.

[141] *Id.*

[142] *Id.*

[143] *Id.* at 10.

[144] *Id.* at 11.

[145] *Id.*

[146] *Id.*

[147] *Id.*

[148] *Id.*

[149] *Id.*

[150] *Id.*

[151] *Id.* at 12.

[152] *Id.* at 13.

[153] *Id.* at 14.

[154] *Id.* at 13.

[155] 15 U.S.C. 78q–1(b)(3)(I).

issue, FICC has proposed the changes discussed herein, which are designed to improve GSD's current VaR Charge calculation so that it responds more effectively to market volatility and helps FICC achieve backtesting coverage at a 99 percent confidence level. Although FICC had previously implemented the Margin Proxy to help address the issue,[156] FICC is still concerned that the look-back period that is currently used in calculating the VaR Charge under the Margin Proxy may not calculate sufficient margin amounts to cover GSD's exposure to a defaulting Member.[157] Therefore, the Commission believes that the Proposed Rule Change will help FICC better address this ongoing concern of maintaining sufficient financial resources to cover its credit exposure to each Member fully with a high degree of confidence. By helping FICC to better manage its credit exposure, the proposed changes would, in turn, help FICC better mitigate the potential losses to FICC and its Members associated with liquidating a Member's portfolio in the event of a Member default, in furtherance of FICC's obligations under Section 17A(b)(3)(F) of the Exchange Act to safeguard the securities and funds in FICC's custody or control, as discussed above.[158]

While the proposed changes contained in the Proposed Rule Change may raise the costs that certain Members incur to cover the risks associated with their portfolios, the Commission believes that these costs reflect the risks that these Members present to FICC, as the proposal is tailored to the different risk factors presented by each Member's portfolio, as described above. Specifically, the proposal to (1) move to a sensitivity approach to the VaR Charge calculation would enable the VaR Charge calculation to respond more effectively to market volatility by allowing FICC to attribute market price moves to various risk factors; (2) establish an evenly-weighted 10-year look-back period, with the option to add an additional stress period, would help FICC to ensure that the proposed sensitivity VaR Charge calculation contains a sufficient number of historical market conditions, to include stressed market conditions; (3) use the existing Margin Proxy as a back-up methodology system would help ensure FICC is able to calculate a VaR Charge for Members despite not being able to receive sensitivity data; (4) to implement a haircut method for securities with insufficient sensitivity data would help ensure that FICC is able to capture the risk profile of the securities; (5) establish the VaR Floor would help ensure that FICC assesses a VaR Charge where the proposed sensitivity calculation has produce too low of a VaR Charge; (6) establish the Blackout Period Exposure Adjustment component would enable FICC to address risks that could result from overstated values of mortgage-backed securities that are pledged as collateral for GCF Repo Transactions during a Blackout Period; (7) adjust the existing Backtesting Charge component would enable FICC to ensure that the charge applies to all Members, as appropriate, and to Members intraday trading activities that could pose a risk to FICC in the event that such Members default during the trading day; and (8) eliminate the Blackout Period Exposure Charge, Coverage Charge, and augmented volatility adjustment multiplier components would ensure that FICC did not maintain elements of the prior margin calculation that would unnecessarily increase Members' margin under the proposed margin calculation. Therefore, the Commission believes that each of the above proposed changes is tailored to the different risk factors presented by Members' portfolios. Tailoring the proposed changes to the different risk factors presented would, in turn, help FICC better mitigate the potential losses to FICC and its Members associated with liquidating a Member's portfolio in the event of a Member default. Specifically, such tailoring would help ensure that FICC collects adequate margin to offset the specific risks associated with each Member's portfolio, in furtherance of FICC's obligations under Section 17A(b)(3)(F) of the Exchange Act to safeguard the securities and funds in FICC's custody or control, as discussed above.[159]

In response to commenters' concerns, discussed above, that too much margin would be collected, after reviewing the data provided by FICC in Exhibit 3 to the Proposed Rule Change in conjunction with the Commission's supervisory observations, the Commission believes that the proposed changes would better enable FICC to collect margin commensurate with the different levels of risk that Members pose to FICC. Further, the Commission believes the amount of margin FICC would collect under the proposed changes would help FICC better manage its credit exposures to its Members and those exposures arising from its payment, clearing, and settlement processes. The Commission also believes, having reviewed Exhibit 3 to the Proposed Rule Change, that not all Members' margin requirements would increase as a result of the proposed changes and that the impact of the proposed changes vary based on Members' clearing portfolios and the market volatility that exists at that time. Further, the Commission believes that the proposed changes to the VaR Charge would not necessarily result in higher margin requirements in other components of the margin calculation where the VaR Charge is used in calculating the component. The Commission also notes that FICC proposes to eliminate the augmented volatility adjustment multiplier and Coverage Component because these components would have the effect of unnecessarily increasing margin amounts. Therefore, the Commission is not persuaded by IDTA's generalized statement that the proposed changes would have such a dramatic effect as to limit the diversity of liquidity in the U.S. markets, such as by causing Members to terminate their GSD membership. Rather, the Commission believes that the proposed changes promote a margin methodology that would appropriately address the risks presented by Members' clearing portfolios, enabling FICC to better mitigate losses that a Member default could cause to FICC and its non-defaulting Members.

Commenters expressed concerns, discussed above, that smaller, non-bank Members would be overly burdened by the proposed changes. After reviewing the data provided by FICC in Exhibit 3 to the Proposed Rule Change in conjunction with the Commission's supervisory observations, the Commission believes that the proposed sensitivity approach appropriately calculates a Member's VaR Charge based on risk factors presented by the securities held in a Member's portfolio and, thus, that the impact of the proposed changes would be determined by a Member's portfolio composition rather than a Member ''type.'' To the extent a Member's VaR Charge would increase under the proposed changes, it would be based on the securities held by the Member and FICC needing to collect margin to appropriately address that risk.

In response to the commenters concerns, discussed above, regarding the need for utilizing cross-margining in

[156] *Supra* note 14.

[157] *See* Amendment No. 1, *supra* note 6. Based on information learned from the Commission's general supervision of FICC, the Commission agrees that FICC should address this concern.

[158] As described further in Sections IV.A, C, D, and G.

[159] As described further in Sections IV.A and C through G.

the GSD margin calculation, the Commission notes that the Proposed Rule Change does not propose to establish or change any cross-margining agreements, whether between GSD and MBSD or between GSD, MBSD, and another clearing agency. As such, cross-margining is not one of the proposed changes under the Commission's review. The Commission further notes that GSD and MBSD have different members (although a member of one could, and some do, apply and become a member of the other), offer different services, and clear different products. To the extent there is the potential to offset risk exposures present across the different products, those products are still cleared by different services. Accordingly, FICC maintains not only separate rulebooks for each division but also separate liquidity resources. Therefore, the Commission believes that the potential burden on Members that exists absent a proposed change in the Proposed Rule Change to establish cross-margining between GSD and MBSD, or to expanding cross-margining between GSD and another clearing agency, does not mean that the proposals are in and of themselves not necessary or not appropriate. Rather, the Commission believes that the proposed changes to GSD's margin calculation are tailored to the specific risks associated with the products and services offered by GSD and that the proposed GSD margin calculation is commensurate with the risks associated with portfolios held by Members in GSD.

The Commission also notes that certain other actions by FICC may address some of the commenter concerns with respect to cross-margining. For instance, FICC states that it has and will continue to explore data sharing and cross-margining opportunities, and that FICC is in the process of completing a proposal that would enable a margin reduction for Members with MBS positions that offset between GSD and MBSD. FICC has also committed to continuing to develop a framework with CME that will enhance FICC's existing cross-margining arrangement with CME.

In response to the commenters concerns, discussed above, regarding the 10-year look-back period and an additional stressed period in the VaR Charge calculation, the Commission believes that an evenly-weighted 10-year look-back period, plus an additional stress period, as needed, would be an appropriate approach to help ensure that the proposed sensitivity VaR Charge calculation accounts for historical market observations of the securities cleared by GSD. Such a look-back period would help enable FICC to be in a better position to maintain backtesting coverage above 99 percent for GSD. As evidenced in FICC's second comment letter, a 10-year look-back period that includes a stress period would provide backtesting coverage above 99 percent, while a five-year look-back period and a one-year look-back period would not.[160]

In response to the commenters concerns, discussed above, regarding the Excess Capital Premium, the Commission notes that this proposed change would modify the denominator used in the calculation. Specifically, the denominator would become larger, as the proposal to use Net Capital (proposed denominator) is a larger amount than the current use of Excess Net Capital (current denominator).[161] The effect, holding all else constant, would be to lower those Members' Excess Capital Premium.

The Commission notes that under the Proposed Rule Change, FICC is not proposing to amend the numerator, as the numerator used for calculating the Excess Capital Premium would still be calculated using the VaR Charge calculation. Of course, if the numerator in the calculation (*i.e.,* a Member's VaR Charge amount using the proposed sensitivity approach) were to increase as a result of the other proposed changes, then the Excess Capital Premium could increase. Further, the numerator will not necessarily increase for every Member. Data provided by FICC, which was filed with the Commission as Exhibit 3 to the Proposed Rule Change, shows that the numerator used for calculating the Excess Capital Premium could increase or decrease depending on the risks associated with a Member's portfolio.

In response to the commenters concerns, discussed above, regarding the calculation of the Blackout Period Exposure Adjustment, the Commission agrees with FICC. Specifically, the Commission agrees that (i) given the number of assumptions that one would need to make with respect to the various factors that influence MBS pay-down rates, the weighted-average approach would provide Members more transparency and certainty around the charge; and (ii) a credit-risk weighting would not likely produce a sufficient charge amount in the event of an actual Member default, as the approach would assume something less than a 100 percent probability of default in calculating the charge. Furthermore, in response to commenters' concerns regarding the Blackout Period Exposure Adjustment collection cycle, the Commission notes the proposed cycle follows the same cycle currently used for the Blackout Period Exposure Charge, which FICC proposes to eliminate on account of the proposed Blackout Period Exposure Adjustment. For both the current and proposed cycle, the Commission understands, based on its experience and expertise, that FICC's application of the charge on the last business day of the month, as opposed to the first business day of the following month, is an appropriate way to ensure that FICC collects the funds before realizing the risk that the charge is intended to mitigate (*i.e.,* a Member defaults during the Blackout Period). Similarly, FICC's extension of the charge through the end of the day on the Factor Date, as opposed to releasing the charge during FICC's standard intraday margin calculation on the Factor Date, also is an appropriate way to mitigate the risk exposure to FICC because, operationally, the MBS are not released and revalued with the update factors by the applicable clearing bank until after FICC has already completed the intraday margin calculation.

Taken together, the Commission believes that the above discussed proposed changes to the components of the margin calculation would enhance FICC's current method for calculating each Member's margin. This enhancement would enable FICC to produce margin levels more commensurate with the risks associated with its Members' portfolios in a broader range of scenarios and market conditions, and, thus, more effectively cover its credit exposure to its Members.

Therefore, for all of the above reasons, Commission believes that the Proposed Rule Change is consistent with Section 17A(b)(3)(I) of the Exchange Act, as the proposal would not impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act.

C. Consistency With Rule 17Ad–22(e)(4)(i) of the Exchange Act

The Commission believes that the changes proposed in the Proposed Rule Change are consistent with Rule 17Ad–22(e)(4)(i) under the Exchange Act. Rule 17Ad–22(e)(4)(i) requires each covered clearing agency[162] to establish,

[160] FICC Letter II at 9–10.

[161] *See* Form X–17A–5, line 3770, *available at https://www.sec.gov/files/formx-17a-5_2.pdf.*

[162] A ''covered clearing agency'' means, among other things, a clearing agency registered with the Commission under Section 17A of the Exchange Act (15 U.S.C. 78q–1 *et seq.*) that is designated systemically important by Financial Stability

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implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.[163]

As described above, FICC proposes a number of changes to the way it addresses credit exposure to its Members through its margin calculation. Specifically, FICC proposes to (1) replace its existing full revaluation VaR Charge calculation with a sensitivity approach to the VaR Charge calculation that uses an evenly-weighted 10-year look-back period; (2) utilize the existing Margin Proxy as a back-up VaR Charge calculation to the proposed sensitivity approach in the event that FICC experiences a data disruption with the third-party vendor; (3) implement a haircut method for securities that are ineligible for the sensitivity approach to FICC's VaR Charge calculation due to inadequate historical pricing data; (4) establish the VaR Floor; (5) establish the Blackout Period Exposure Adjustment component; (6) adjust the existing Backtesting Charge component; and (7) use Net Capital instead of Excess Capital when calculating the Excess Capital Premium, as applicable, for broker Members, inter-dealer broker Members, and dealer Members.

Two commenters expressed concerns regarding the proposed change to the Excess Capital Premium.[164] IDTA states that FICC needs to provide further clarification and justification for the Excess Capital Premium because the Excess Capital Premium under the proposed sensitivity approach to the VaR Charge calculation could result in additional margin for some Members ''without sufficient explanation in the proposed rule change.'' [165] Additionally, IDTA states that the use of Net Capital in the denominator of the Excess Capital Premium will result in some additional Members being assessed the charge, specifically Dealer Members.[166] IDTA states that Dealer Members should be able to use net worth, as compared to Net Capital, because a bank Member's capital figure is based on assets without any haircut for certain positions.[167] In contrast, IDTA states that dealers must include haircuts on certain positions before calculating Net Capital.[168] IDTA also states that FICC should allow dealer Members to calculate Net Capital for purposes of the Excess Capital Premium to not include a haircut on U.S. Government securities cleared at FICC.[169] Finally, IDTA states that the Excess Capital Premium should instead be used to trigger a credit review for Members because, in conjunction with the other proposed changes, the Excess Capital Premium would not be a ''sound measure'' of a Member's credit risk.[170] Similarly, Amherst notes that FICC should review further how it can allow dealer Members to be compared similarly to bank Members for Excess Capital Premium purposes to account for the haircut on assets that dealers must account for in their Net Capital calculation.[171]

In response, FICC states that the Excess Capital Premium is used to more effectively manage the risk posed by a Member whose activity causes it to have a margin requirement that is greater than its excess regulatory capital.[172] FICC notes that for a majority of Members, the proposed sensitivity VaR Charge calculation would be higher than the current VaR Charge calculation, excluding the Margin Proxy, and that the higher VaR Charge could result in a higher Excess Capital Premium.[173] Where there is an increase, FICC states that this increase is appropriate for the exposure that the Excess Capital Premium is designed to mitigate.[174] However, FICC notes that even with the potential increase in the proposed VaR Charge, the majority of Members would not incur the Excess Capital Premium.[175] Additionally, FICC states that the proposed change to Net Capital for the Excess Capital Premium would reduce the impact to Members.[176] For example, for period of December 18, 2017 through April 2, 2018, FICC states that by using Net Capital instead of Excess Net Capital, the Member with the largest number of instances of the Excess Capital Premium would have had a 27 percent reduction in the number of instances and, on average, an 82 percent decrease in the dollar value of the charge on the days such Excess Capital Premium occurred.[177]

Additionally, two commenters noted that the proposed sensitivity approach to the VaR Charge calculation is not needed at this time because the Margin Proxy [178] is sufficient to cover any gaps in margin requirements. Specifically, Amherst states that FICC has not presented the Commission with the full impact analysis of the supplemental Margin Proxy calculation and that the full analysis would reveal that the current margining process, inclusive of the Margin Proxy, has already significantly and materially increased Members' margin amounts. Therefore, Amherst states that a full analysis of the current supplemental Margin Proxy calculation would reveal that the Margin Proxy enables FICC to collect adequate levels of margin to protect itself during stressed periods.[179] Similarly, IDTA states that the Margin Proxy allows GSD to maintain its backtesting goal at the 99 percent confidence level.[180]

In response, FICC states that the Margin Proxy has historically provided a more accurate VaR Charge calculation than the full valuation approach, but the current VaR Charge as supplemented by the Margin Proxy calculation reflects relatively low market price volatility that has been present in the mortgage-backed securities market since the beginning of 2017. As such, FICC states that this current approach contains an insufficient amount of look-back data to ensure that the backtesting will remain above 99 percent if volatility returns to levels seen beyond the one-year look-back period that is currently used to calibrate the Margin Proxy for MBS.[181] Additionally, in order to help ensure that it is calculating adequate margin, FICC filed Amendment No. 1 to accelerate the implementation of all the proposed changes, except for the proposed Blackout Period Exposure Adjustment and the removal of the existing Blackout Period Exposure Charge, which FICC proposes to implement in phases, through the remainder of 2018, in response to commenters.

In Amendment No. 1, FICC states that it has been discussing the proposed changes with Members since August 2017 in order to help Members prepare for and understand why FICC proposed

Oversight Council (''FSOC'') pursuant to the Clearing Supervision Act (12 U.S.C. 5461 *et seq.*). *See* 17 CFR 240.17Ad–22(a)(5)–(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.

[163] 17 CFR 240.17Ad–22(e)(4)(i).

[164] IDTA Letter; Amherst Letter II.

[165] IDTA Letter at 9.

[166] *Id.*

[167] *Id.* at 10.

[168] *Id.* at 10.

[169] *Id.* at 10.

[170] *Id.*

[171] Amherst Letter II at 4.

[172] FICC Letter II at 10,11; *see* Exchange Act Release No. 54457 (September 15, 2006), 71 FR 55239 (September 21, 2006) (SR–FICC–2006–03).

[173] FICC Letter II at 11.

[174] *Id.*

[175] *Id.*

[176] *Id.*

[177] *Id.*

[178] *Supra* note 12.

[179] Amherst II Letter at 2.

[180] IDTA Letter at 3–4.

[181] FICC Letter II at 3.

the rule changes.[182] FICC states that it is primarily concerned that the look-back period that is currently used in calculating the VaR Charge under the Margin Proxy may not calculate sufficient margin amounts to cover GSD's exposure to a defaulting Member.[183] Therefore, FICC proposes to accelerate the implementation of all the proposed changes, except for the proposed Blackout Period Exposure Adjustment and the removal of the existing Blackout Period Exposure Charge.[184]

The Commission believes that these proposed changes are designed to help FICC better identify, measure, monitor, and manage its credit exposure to its Members by calculating more precisely the risk presented by Members, which would enable FICC to assess a more reliable VaR Charge. Specifically, FICC's proposed change to (1) switch to a sensitivity approach to the VaR Charge calculation, with a 10-year look-back period, would help the calculation respond more effectively to market volatility by attributing market price moves to various risk factors; (2) use the Margin Proxy as a back-up to the proposed sensitivity calculation would help ensure that FICC is able to assess a VaR Charge, even if its unable to receive sensitivity data from the third-party vendor; (3) apply a haircut on securities that are ineligible for the sensitivity VaR Charge calculation would enable FICC to better account for the risk presented by such securities; (4) establish the VaR Floor would enable FICC to better calculate a VaR Charge for portfolios where the proposed sensitivity approach would yield too low a VaR Charge; (5) establish the Blackout Period Exposure Adjustment component would enable FICC to better address risks that could result from overstated values of mortgage-backed securities that are pledged as collateral for GCF Repo Transactions during a Blackout Period; (6) adjust the existing Backtesting Charge component would ensure that the charge applied to all Members, as appropriate, and to Member's intraday trading activities; and (7) use Net Capital instead of Excess Capital when calculating the Excess Capital Premium would make the Excess Capital Premium calculation for broker Members, inter-dealer broker Members, and dealer Members more consistent with the equity capital measure that is used for other Members.

In response to commenters concerns regarding the proposed change to the Excess Capital Premium calculation, the Commission notes that this proposed change would only modify the denominator used in the calculation. Specifically, the denominator would become larger, as the proposal to use Net Capital (proposed denominator) is a larger amount than the current use of Excess Net Capital (current denominator).[185] The effect, holding all else constant, would be to lower those Members' Excess Capital Premium.

Of course, if the numerator in the calculation (*i.e.,* a Member's VaR Charge amount) would increase, then the Excess Capital Premium could increase. However, FICC does not propose to change the numerator used for calculating the Excess Capital Premium. The Commission notes that under the Proposed Rule Change, the numerator used for calculating the Excess Capital Premium would be calculated using the proposed sensitivity approach to the VaR Charge calculation. As described further below, the proposed sensitivity approach would calculate margin commensurate with the risks associated with a Member's portfolio.

In response to the comments that the proposed sensitivity approach to the VaR Charge calculation is not necessary at this time in light of the Margin Proxy, the Commission disagrees. In considering these comments, the Commission thoroughly reviewed (i) the Proposed Rule Change, including the supporting exhibits that provided confidential information on the performance of the proposed sensitivity calculation, impact analysis, and backtesting results; (ii) the comments received; and (iii) the Commission's own understanding of the performance of the current VaR Charge calculation, with which the Commission has experience from its general supervision of FICC, compared to the proposed sensitivity calculation. More specifically, the confidential Exhibit 3 submitted by FICC includes (i) 12-month rolling coverage backtesting results; (ii) intraday backtesting impact analysis; (iii) a breakdown of coverage percentages and dollar amounts, for each Member, under the current margin model with and without Margin Proxy and under the proposed sensitivity model; and (iv) an impact study of the proposed changes detailing the margin amounts required per Member during Blackout Periods and non-Blackout Periods.

On a Member basis, the Commission notes that there is not a sizeable change in the amount of margin collected under the current margin model, supplemented by the Margin Proxy, compared to the proposed sensitivity model. The Commission also notes that the Margin Proxy was implemented as a temporary solution to issues identified with the current model, as it only has a one year look-back period.[186] Additionally, the Commission believes that the sensitivity approach is simpler and more accurate as it uses a broad spectrum of sensitivity data that is tailored to the specific risks associated with Members' portfolios. Ultimately, the Commission finds that the proposed sensitivity approach, and the related implementation schedule proposed in Amendment No. 1, would provide FICC with a more robust margin calculation in FICC's efforts to meet the applicable regulatory requirements for margin coverage.

Therefore, for the reasons discussed above, the Commission believes that the changes proposed in the Proposed Rule Change are consistent with Rule 17Ad–22(e)(4)(i) under the Exchange Act.[187]

D. Consistency With Rule 17Ad–22(e)(6)(i) of the Exchange Act

The Commission believes that the changes proposed in the Proposed Rule Change are consistent with Rule 17Ad–22(e)(6)(i) under the Exchange Act. Rule 17Ad–22(e)(6)(i) requires each 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.[188]

As described above, FICC proposes a number of changes to how it calculates Members' margin charge through a risk-based margin system that considers the risks and attributes of securities that GSD clears. Specifically, FICC proposes to (1) move to a sensitivity approach to the VaR Charge calculation; (2) move from a front-weighted one-year look-back period to an evenly-weighted 10-year look-back period with the option for an additional stress period; (3) use the existing Margin Proxy as a back-up methodology to the proposed sensitivity approach to the VaR Charge calculation; (4) implement a haircut method for securities with insufficient sensitivity data due to inadequate historical pricing; (5) establish the VaR Floor; (6) establish the Blackout Period Exposure

[182] *Id.*

[183] *Id.*

[184] *Id.*

[185] *See* Form X–17A–5, line 3770, *available at https://www.sec.gov/files/formx-17a-5_2.pdf.*

[186] *See supra* note 15.

[187] 17 CFR 240.17Ad–22(e)(4)(i).

[188] 17 CFR 240.17Ad–22(e)(6)(i).

Adjustment component; (7) adjust the existing Backtesting Charge component; and (8) eliminate the Blackout Period Exposure Charge, Coverage Charge, and augmented volatility adjustment multiplier components.

Several commenters raised concerns that the proposed changes to the margin calculation would not produce a margin charge commensurate with the risks and particular attributes of Members' complete portfolios. Specifically, Ronin states that the use of the proposed sensitivity approach to the VaR Charge calculation only uses a subset of a Member's entire portfolio (*i.e.,* it does not incorporate data from other clearing agencies) to calculate the Member's risk to FICC.[189] Ronin suggests that the implementation of data sharing and cross margining between MBSD, GSD, and CME would provide FICC with a more accurate representation of the risk associated with a Member's portfolio.[190] Ronin also states that the existing cross-margin agreement between FICC and CME needs an update to provide true cross-margin relief for all GSD Members.[191] Similarly, IDTA states that FICC cannot accurately identify the risk associated with a Member's portfolio due to the lack of incentive to share data with other clearing agencies.[192] IDTA suggests that FICC should develop cross-margining ability between GSD and MBSD and improve cross-margining with CME.[193] KGS and Amherst make similar arguments. KGS states that in order to more effectively analyze and address Members' portfolio risks, there should be cross margining for Members that hold offsetting positions in GSD and MBSD, stating that not having such an intra-DTCC cross-margining process will have a distortive effect on GSD's margining system, forcing members to reduce their use of GSD and reduce their positions cleared through GSD, in effect reducing market liquidity.[194] Amherst states that not implementing cross-margin capabilities will inflate the margin requirements and distort the liquidity profile of the Member.[195]

In response, FICC disagrees with Amherst's statement that FICC's failure to implement a cross-margining arrangement would be inconsistent with the requirements of Rule 17Ad–22(e)(6) under the Exchange Act.[196] FICC notes that it operates under two divisions, GSD and MBSD, each of which has its own rules and members.[197] As a registered clearing agency, FICC notes that it is subject to the requirements that are contained in the Exchange Act and in the Commission's regulations and rules thereunder.[198]

Nevertheless, FICC states that it agrees with commenters that data sharing and cross-margining would be beneficial to its Members and is exploring data sharing and cross-margining opportunities outside of the Proposed Rule Change.[199] FICC states it is in the process of completing a proposal that would enable a margin reduction for Members with mortgage-backed securities (''MBS'') positions that offset between GSD and MBSD.[200] FICC also states it will continue to develop a framework with CME that will enhance FICC's existing cross-margining arrangement with CME.[201] Finally, FICC notes that the proposed changes to the GSD margin methodology are necessary because they provide appropriate risk mitigation that must be in place before FICC can fully evaluate potential cross-margining opportunities.[202]

Separate from those comments, two commenters also raised concerns with the proposed extended look-back period. Ronin states that FICC's assumption of adding a continued stress period to the 10-year look-back calculation is employing ''statistical bias'' because it treats every day as if the market is in ''the midst of a financial crisis'' and creates over margining.[203] Similarly, IDTA states the addition of an arbitrary year to the look-back period is statistically biased and makes the ''most volatile day'' permanent and therefore, the calculations are not addressing the actual risk of a portfolio.[204] IDTA believes that a shorter look-back period of five years without an additional stress period would sufficiently margin Members for the risk of their portfolios.[205]

In response, FICC states that a longer look-back period will produce a more stable VaR estimate that adequately reflects extreme market moves ensuring the VaR Charge does not decrease as quickly during periods of low volatility nor increase as sharply during periods of a market crisis.[206] Additionally, FICC states that an extended look-back period including stressed market conditions are necessary to calculate margin requirements that achieve a 99 percent confidence level.[207] As part of FICC's model validation report, FICC performed a benchmark analysis of its calculation of the VaR Charge. FICC analyzed a 10-year look-back period, a five-year look-back period, and a one-year look-back period using all Member portfolios from January 1, 2013 through April 28, 2017.[208] The results of FICC's analysis showed that a 10-year look-back period, which included a stress period, provides backtesting coverage above 99 percent while a five-year look-back period and a one-year look-back period did not.[209]

The Commission believes that these proposed changes are designed to help FICC better cover its credit exposures to its Members, as the changes would help establish a risk-based margin system that considers and produces margin levels commensurate with the risks and particular attributes of the products cleared in GSD. Specifically, the proposal to (1) move to a sensitivity approach to the VaR Charge calculation would enable the VaR Charge calculation to respond more effectively to market volatility by allowing FICC to attribute market price moves to various risk factors; (2) establish an evenly-weighted 10-year look-back period, with the option to add an additional stress period, would help FICC to ensure that the proposed sensitivity VaR Charge calculation contains a sufficient number of historical market conditions, to include stressed market conditions; (3) use the existing Margin Proxy as a back-up methodology system would help ensure FICC is able to calculate a VaR Charge for Members despite a not being able to receive sensitivity date; (4) to implement a haircut method for securities with insufficient sensitivity data would help ensure that FICC is able to capture the risk profile of the securities; (5) establish the VaR Floor would help ensure that FICC assesses a VaR Charge where the proposed sensitivity calculation has produce too low of a VaR Charge; (6) establish the Blackout Period Exposure Adjustment component would enable FICC to address risks that could result from overstated values of mortgage-backed securities that are pledged as collateral for GCF Repo Transactions during a Blackout Period; (7) adjust the existing Backtesting Charge component would enable FICC to ensure that the charge applies to all Members, as appropriate,

[189] Ronin Letter I at 1.
[190] *Id.* at 2.
[191] Ronin Letter II at 2.
[192] IDTA Letter at 11.
[193] *Id.*
[194] KGS Letter at 1.
[195] Amherst Letter II at 2.
[196] FICC Letter II at 12.
[197] *Id.*
[198] *Id.*
[199] FICC Letter I at 5.
[200] FICC Letter II at 12.
[201] *Id.*
[202] *Id.*
[203] Ronin Letter I at 4; Ronin Letter 2 at 5.
[204] IDTA Letter I at 7.
[205] *Id.*
[206] FICC Letter I at 4.
[207] *Id.*
[208] FICC Letter II at 9.
[209] *Id.*

and to Members' intraday trading activities that could pose a risk to FICC in the event that such Members default during the trading day; and (8) eliminate the Blackout Period Exposure Charge, Coverage Charge, and augmented volatility adjustment multiplier components would ensure that FICC did not maintain elements of the prior margin calculation that would unnecessarily increase Members' margin under the proposed margin calculation.

In response to comments regarding cross-margining and its potential impact upon membership levels and market liquidity, the Commission notes that the Proposed Rule Change does not propose to establish or change any cross-margining agreements, whether between GSD and MBSD or between GSD, MBSD, and another clearing agency. As such, cross-margining is not one of the proposed changes under the Commission's review. The Commission further notes that GSD and MBSD have different members (although a member of one could, and some may, apply and become a member of the other), offer different services, and clear different products. To the extent there is the potential to offset risk exposure present across the different products, those products are still cleared by different services. Accordingly, FICC maintains not only separate rulebooks for each division but also separate liquidity resources.

Therefore, the Commission believes that the absence of a proposal in the Proposed Rule Change to establish cross-margining between GSD and MBSD, or to expanding cross-margining between GSD and another clearing agency, does not render the specific changes proposed in the Proposed Rule Change for GSD inconsistent with the Clearing Supervision Act or the applicable rules discussed herein. Rather, the Commission believes that the proposed changes to GSD's margin calculation are designed to be tailored to the specific risks associated with the products and services offered by GSD and that the proposed GSD margin calculation is commensurate with the risks associated with portfolios held by Members in GSD.

In response to comments about the proposed look-back period, the Commission believes that an evenly-weighted 10-year look-back period, plus an additional stress period, as needed, is an appropriate approach to help ensure that the proposed sensitivity VaR Charge calculation accounts for historical market observations of the securities cleared by GSD. Such a look-back period would help enable FICC to be in a better position to maintain backtesting coverage above 99 percent for GSD. As evidenced in FICC's second comment letter, a 10-year look-back period that includes a stress period would provide backtesting coverage above 99 percent, while a five-year look-back period and a one-year look-back period would not.[210]

Therefore, for the above discussed reasons, the Commission believes that the changes proposed in the Proposed Rule Change are consistent with Rule 17Ad–22(e)(6)(i) under the Exchange Act.[211]

E. Consistency With Rule 17Ad–22(e)(6)(ii) of the Exchange Act

The Commission believes that the changes proposed in the Proposed Rule Change are consistent with Rule 17Ad–22(e)(6)(ii) under the Exchange Act. Rule 17Ad–22(e)(6)(ii) requires each 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, marks participant positions to market and collects margin, including variation margin or equivalent charges if relevant, at least daily and includes the authority and operational capacity to make intraday margin calls in defined circumstances.[212]

As described above, FICC proposes to adjust the existing Backtesting Charge component. Specifically, FICC proposes to collect the charge from all Members on a daily basis, as applicable, as well as from Members that have backtesting deficiencies during the trading day due to large fluctuations of intraday trading activity that could pose risk to FICC in the event that such Members default during the trading day.

The change is designed to help improve FICC's risk-based margin system by authorizing FICC to assess this specific margin charge on all Members at least daily, as needed, and on an intra-day basis, as needed. Therefore, the Commission believes that the changes proposed in the Proposed Rule Change are consistent with Rule 17Ad–22(e)(6)(ii) under the Exchange Act.[213]

F. Consistency With Rule 17Ad–22(e)(6)(iv) of the Exchange Act

The Commission believes that the changes proposed in the Proposed Rule Change are consistent with Rule 17Ad–22(e)(6)(iv) under the Exchange Act. Rule 17Ad–22(e)(6)(iv) requires each 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 reliable sources of timely price data and procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable.[214]

As described above, FICC proposes a number of changes to its margin calculation that are designed to use reliable price data and address circumstances in which pricing data may not be available or reliable. Specifically, FICC proposes to (1) replace its existing full revaluation VaR Charge calculation with the proposed sensitivity approach that relies upon the expertise of a third-party vendor to produce the needed sensitivity data; (2) utilize the existing Margin Proxy as a back-up to the proposed sensitivity VaR Charge calculation in the event that FICC experiences a data disruption with the third-party vendor; (3) implement a haircut method for securities that are ineligible for the proposed sensitivity approach to the VaR Charge calculation due to inadequate historical pricing data; and (4) establish the VaR Floor.

The Commission believes that these proposed changes are designed to help FICC better cover its credit exposures to its Members, as the changes would help establish a risk-based margin system that uses reliable sources of timely price data and procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable. Specifically, the proposal to (1) move to a sensitivity approach to the VaR Charge calculation would not only enable the VaR Charge calculation to respond more effectively to market volatility by allowing FICC to attribute market price moves to various risk factors but also would enable FICC to employ the expertise of a third-party vendor to supply applicable sensitivity data; (2) use the existing Margin Proxy as a back-up methodology system would help ensure FICC is able to calculate a VaR Charge for Members despite any difficulty in receiving sensitivity data from the third-party vendor; (3) implement a haircut method for securities with insufficient sensitivity data would help ensure that FICC is able to capture the risk profile of the securities; and (4) establish the VaR Floor would help ensure that FICC

[210] *Id.* at 9–10.

[211] 17 CFR 240.17Ad–22(e)(6)(i).

[212] 17 CFR 240.17Ad–22(e)(6)(ii).

[213] *Id.*

[214] 17 CFR 240.17Ad–22(e)(6)(iv).

assesses a VaR Charge where the proposed sensitivity VaR Charge calculation produces too low of a VaR Charge.

Therefore, for these reasons, the Commission believes that the changes proposed in the Proposed Rule Change are consistent with Rule 17Ad–22(e)(6)(iv) under the Exchange Act.[215]

G. Consistency With Rule 17Ad–22(e)(6)(v) of the Exchange Act

The Commission believes that the changes proposed in the Proposed Rule Change are consistent with Rule 17Ad–22(e)(6)(v) under the Exchange Act. Rule 17Ad–22(e)(6)(v) requires each covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to use an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products.[216]

As described above, FICC proposes a number of changes to its margin calculation that are designed to help ensure that FICC accounts for the relevant product risk factors and portfolio effects across GSD's products when measuring its credit exposure to Members. Specifically, FICC proposes to (1) replace its existing full revaluation VaR Charge calculation with the proposed sensitivity approach to the VaR Charge calculation; (2) implement a haircut method for securities that are ineligible for the proposed sensitivity approach due to inadequate historical pricing data; and (3) establish the Blackout Period Exposure Adjustment component.

Two commenters raised concerns regarding the Blackout Period Exposure Adjustment.[217] Specifically, IDTA states that that the Blackout Period Exposure Adjustment results in an inaccurate measurement of risk and excessive margin charges.[218] First, IDTA states that the Blackout Period should run from the first business day of the current month to the morning of the fifth business day to more accurately capture FICC's exposure.[219] Second, IDTA states that the Blackout Period Exposure Adjustment should be calculated using historical pay-down rates for the MBS pools held in each Members' portfolio, rather than historical pay-down rates for all active MBS pools. Finally, IDTA states that FICC should apply a credit-risk weighting to the Blackout Period Exposure Adjustment instead of assuming a 100 percent probability of a GCF Repo Service counterparty default across all Members.[220]

Amherst similarly states that using historical pay-down rates for all active MBS pools, rather than using historical pay-down rates for the MBS pools held in each Members' portfolio, in calculating the Blackout Period Exposure Adjustment would eliminate ''prudent risk and position management'' that Members can undertake to reduce FICC's exposure.[221] Amherst states that FICC should retain its current approach that provides incentives for Members to ''manage the prepay characteristics of the mortgage-backed securities held within FICC.'' [222]

In response, FICC states that Blackout Period Exposure Adjustment collections that occur after the MBS collateral pledge would not mitigate the risk that a Member defaults after the collateral is pledged but before such Member satisfies the next day's margin.[223] Therefore, FICC states that IDTA's proposed change to the timing of the Blackout Period Exposure Adjustment would be inconsistent with FICC's requirements under the Exchange Act.[224] Additionally, FICC states it considered different approaches for determining the calculation of the Blackout Period Exposure Adjustment that would ensure FICC has sufficient backtesting coverage, and give Members transparency and the ability to plan for the Blackout Period Exposure Adjustment requirements.[225] FICC notes that MBS pay-down rates are influenced by several factors that can be projected at the loan level, however, such projections would be dependent on several assumptions that may not be predictable and transparent to Members.[226] Thus, FICC states that the proposed Blackout Period Exposure Adjustment applies weighted averages of pay-down rates for all active mortgage pools of the related program during the three most recent preceding months, and FICC believes that this approach would allow Members to effectively plan for the Blackout Period Exposure Adjustment.[227] Finally, FICC disagrees with IDTA's suggestion that a probability of default approach would be more appropriate because a probability of default approach would provide lower margin coverage than the current approach.[228] FICC notes this lower margin would not be sufficient to maintain the margin coverage at a 99 percent confidence level.[229]

The Commission believes that these proposed changes are designed to help FICC use an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products cleared by GSD. Specifically, the proposal to (1) move to a sensitivity approach to the VaR Charge calculation would enable the VaR Charge calculation to respond more effectively to market volatility by allowing FICC to attribute market price moves to various risk factors; (2) to implement a haircut method for securities with insufficient sensitivity data would help ensure that FICC is able to capture the risk profile of the securities; and (3) establish the Blackout Period Exposure Adjustment component would enable FICC to address risks that could result from overstated values of mortgage-backed securities that are pledged as collateral for GCF Repo Transactions during a Blackout Period.

In response to commenters' concerns regarding the Blackout Period Exposure Adjustment collection cycle, as stated above, the Commission notes the proposed cycle follows the same cycle currently used for the Blackout Period Exposure Charge, which FICC proposes to eliminate on account of the proposed Blackout Period Exposure Adjustment. For both the current and proposed cycle, the Commission understands, based on its experience and expertise, that FICC's application of the charge on the last business day of the month, as opposed to the first business day of the following month, is an appropriate way to ensure that FICC collects the funds before realizing the risk that the charge is intended to mitigate (*i.e.,* a Member defaults during the Blackout Period). Similarly, FICC's extension of the charge through the end of the day on the Factor Date, as opposed to releasing the charge during FICC's standard intraday margin calculation on the Factor Date, also is an appropriate way to mitigate the risk exposure to FICC because, operationally, the MBS are not released and revalued with the update factors by the applicable clearing bank until after FICC has already completed the intraday margin calculation.

In response to commenters' concerns regarding the calculation of the Blackout Period Exposure Adjustment, the Commission agrees with FICC. Specifically, the Commission agrees that (i) given the number assumptions that

[215] *Id.*

[216] 17 CFR 240.17Ad–22(e)(6)(v).

[217] IDTA Letter; Amherst Letter II.

[218] IDTA Letter at 12.

[219] *Id.*

[220] *Id.*

[221] Amherst Letter II at 5.

[222] *Id.*

[223] FICC Letter II at 13.

[224] *Id.*

[225] *Id.*

[226] *Id.*

[227] *Id.*

[228] *Id.*

[229] *Id.*

one would need to make with respect to the various factors that influence MBS pay-down rates, the weighted–average approach would provide Members more transparency and certainty around the charge; and (ii) a credit-risk weighting would not likely produce a sufficient charge amount in the event of an actual Member default, as the approach would assume something less than a 100 percent probability of default in calculating the charge.

Therefore, for these reasons, the Commission believes that the changes proposed in the Proposed Rule Change are consistent with Rule 17Ad–22(e)(6)(v) under the Exchange Act.[230]

H. Consistency With Rule 17Ad–22(e)(6)(vi)(B) of the Exchange Act

Rule 17Ad–22(e)(6)(vi)(B) under the Exchange Act requires each 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, is monitored by management on an ongoing basis and is regularly reviewed, tested, and verified by conducting a sensitivity analysis [231] of its margin model and a review of its parameters and assumptions for backtesting on at least a monthly basis, and considering modifications to ensure the backtesting practices are appropriate for determining the adequacy of the covered clearing agency's margin resources.[232]

Some of the commenters raise concerns that two of the presumptions assumed by FICC for backtesting, in order to determine the adequacy of the FICC's margin resources, are inaccurate.[233] First, Ronin and IDTA claim that FICC incorrectly assumes that it would take three days to liquidate or hedge the portfolio of a defaulting Member in normal market conditions. Specifically, Ronin states that FICC's assumption that it would take three days to liquidate or hedge the portfolio of a defaulted Member is incorrect because FICC incorrectly assumes that liquidity needs following a default will be identical for all Members.[234] Ronin states that the three-day liquidation period creates an ''arbitrary and extremely high hurdle'' for historical backtesting by overestimating the closeout-period risk posed to FICC by many of its Members by ''triple-counting'' a single event.[235] Similarly, IDTA notes that it is arbitrary to apply the same liquidation period across all Members because smaller Member portfolios can be more easily liquidated or hedged in a short period of time.[236] IDTA believes FICC should link the liquidation period to the portfolio size of the Member.[237]

In its response, FICC states that the three-day liquidation period is an accurate assumption of the length of time it would take to liquidate a portfolio given the volume and types of securities that can be found in a Member's portfolio at any given time.[238] Further, FICC notes that it validates the three-day liquidation period, at least annually, through FICC's simulated close-out, which is augmented with statistical and economic analysis to reflect potential liquidation costs of sample portfolios of various sizes.[239] FICC also notes that idiosyncratic exposures cannot be mitigated quickly and that the risk associated with idiosyncratic exposures is present in large and small portfolios.[240] Finally, FICC states that although a single market price shock will influence a three-day portfolio price return, the mark-to-market calculation will vary daily based on the day's positions and margin collection for each Member.[241]

The Commission believes that FICC's assumption that it could take three days to liquidate the portfolio of a defaulted Member, regardless of the size of the portfolio or the type of Member, is appropriate. To the extent there is a difference in the time required for FICC to liquidate various GSD products over a three-day period, the Commission believes that such time is appropriate in order for FICC to focus on the overall risk management of the defaulted Member without creating a liquidation methodology that is overly complex and susceptible to flaws.

Therefore, the Commission believes that the Proposed Rule Change is consistent with Rule 17Ad–22(e)(6)(vi)(B) under the Exchange Act.[242]

I. Consistency With Rule 17Ad–22(e)(23)(ii) of the Exchange Act

Rule 17Ad–22(e)(23)(ii) under the Exchange Act requires each covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in the covered clearing agency.[243]

Three commenters expressed concerns regarding the limited time in which Members have had to evaluate the data provided by FICC and the effects of the proposed changes.[244] IDTA states that the proposed changes are complex and warrant adequate testing and transparency between FICC and its Members.[245] IDTA states that FICC has not provided Members with adequate time to review and evaluate the potential impacts of the proposed changes on a Member's portfolio.[246] IDTA suggests that FICC (i) provide more time for Members to adapt to the change; (ii) launch a calculator that enables Members to input sample portfolios to determine the margin required; and (iii) provide full disclosure of the methodology used.[247]

Similarly, Amherst states that the proposed changes should not be implemented until Members have had the appropriate time and sufficient information to complete a comparison between the current margin methodology and the proposed changes.[248] Amherst requests that FICC provide the appropriate tools and information to replicate the new sensitivity model in order to manage the risks to Members that may be introduced as a result of the proposed changes.[249] Amherst also requests that FICC provide transparency surrounding the effects of the Blackout Period Exposure Adjustment and the Excess Capital Premium calculations in order to assess the impacts of the proposed changes.[250]

Similarly, Ronin states that FICC has heavily relied on parallel and historical studies when providing its Members

[230] 17 CFR 240.17Ad–22(e)(6)(v).

[231] Rule 17Ad–22(a)(16)(i) under the Exchange Act defines sensitivity analysis to include an analysis that involves analyzing the sensitivity model to its assumptions, parameters, and inputs that consider the impact on the model of both moderate and extreme changes in a wide range of inputs, parameters, and assumptions, including correlations of price movements or returns if relevant, which reflect a variety of historical and hypothetical market conditions. 17 CFR 240.17Ad–22(a)(16)(i). Sensitivity analysis must use actual portfolios and, where applicable, hypothetical portfolios that reflect the characteristics of proprietary positions and customer positions. *Id.*

[232] 17 CFR 240.17Ad–22(e)(6)(vi)(B).

[233] Ronin Letter I at 2–4; IDTA Letter at 6, 7.

[234] Ronin Letter I at 2–3; Ronin Letter II at 1.

[235] Ronin Letter I at 3.

[236] IDTA Letter at 6; Ronin Letter II at 2.

[237] *Id.*

[238] FICC Letter I at 3.

[239] *Id.* at 3–4.

[240] *Id.* at 4.

[241] *Id.*

[242] 17 CFR 240.17Ad–22(e)(6)(vi)(B).

[243] 17 CFR 240.17Ad–22(e)(23)(ii).

[244] *See* Amherst Letter II; IDTA Letter; Ronin II Letter.

[245] IDTA Letter at 5.

[246] *Id.*

[247] *Id.*

[248] Amherst Letter II at 2.

[249] *Id.*

[250] *Id.* at 5, 6.

with data, but Members lack the necessary tools to conduct their own scenario analysis.[251] Ronin notes that when trading activity or market conditions deviate from assumptions made under the various studies conducted by the FICC, Members are forced to react rather than proactively manage capital needs.[252] Ronin, therefore, states it is significantly more difficult to manage the capital needs of a business when a clearing agency does not provide appropriate tools for calculating projected margin requirements in advance.[253]

In response, FICC states that its Members have been provided with sufficient time and information to assess the impact of the proposed changes.[254] FICC states that it has provided Members with numerous opportunities to gather information including (i) holding customer forums in August 2017; (ii) making individual impact studies available in September 2017 and December 2017; (iii) providing parallel reporting on a daily basis since December 18, 2017; and (iv) meeting and speaking with Members on an individual basis and responding to request for additional information since August 2017.[255] Separately, FICC agrees with commenters that launching a calculator that enables Members to input sample portfolios to determine the margin required would be beneficial to its Members and is exploring creating such a calculator outside of the changes proposed in the Proposed Rule Change.[256] Additionally, in order to provide Members with more time, FICC filed Amendment No. 1 to delay implementation of the Blackout Period Exposure Adjustment and the removal of the Blackout Period Exposure Charge.[257] Such changes now would be implemented in phases throughout the remainder of 2018.[258]

In response to commenters, the Commission notes that the disclosure requirements of Rule 17Ad–22(e)(23)(ii) under the Exchange Act[259] should not be conflated with the filing requirements for proposed rule changes under Section 19(b)(1) of the Exchange Act[260] and Rule 19b–4 thereunder.[261] Section 19(b)(1) of the Exchange Act requires a self-regulatory organization to provide the Commission with copies of any proposed rule or proposed change to the self-regulatory organization's rules, accompanied by a concise general statement of the basis and purpose of the proposed rule change,[262] which FICC did in this case.[263] Meanwhile, Rule 19b–4(l) under the Exchange Act requires the clearing agency to post the proposed rule change, and any amendments thereto, on its website within two business days after filing with the Commission,[264] which FICC did in this case.[265]

Until the Commission approves the changes proposed in a proposed rule change, disclosure of the proposed changes under Rule 17Ad–22(e)(23)(ii) is not yet applicable, as there would not yet be (and there may not be if the Commission objects to the proposed changes) any risks, fees, or other material costs incurred with respect to the proposed changes. Nevertheless, the Commission notes that FICC has conducted outreach to Members, as described above, and proposes a staggered implementation of the proposed Blackout Period Exposure Adjustment and removal of the Blackout Period Exposure Charge in response to commenters. The Commission believes that the absence of a longer period of time to review the Proposed Rule Change does not render the proposed changes inconsistent with the Clearing Supervision Act or the applicable rules discussed herein.

Therefore, the Commission believes that the changes proposed in the Proposed Rule Change are consistent with Rule 17Ad–22(e)(23)(ii) under the Exchange Act.[266]

V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1

The Commission finds good cause to approve the Proposed Rule Change, as modified by Amendment No. 1, prior to the thirtieth day after the date of publication of the notice of Amendment No. 1 in the **Federal Register**. As discussed above, FICC submitted Amendment No. 1 to (1) stagger the implementation of the proposed Blackout Period Exposure Adjustment and the proposed removal of the Blackout Period Exposure Charge; (2) amend the implementation date for the remainder of the proposed changes contained in the Proposed Rule Change; and (3) correct an incorrect description of the calculation of the Excess Capital Premium that appears once in the narrative to the Proposed Rule Change, as well as in the corresponding location in the Exhibit 1A to the Proposed Rule Change.

The Commission believes that Amendment No. 1 does not raise any novel issues: (i) Staggering the implementation of the proposed Blackout Period Exposure Adjustment is in response to comments received, as described above; (ii) accelerating the implementation date for the remainder of the proposed changes would enable FICC to implement those proposed changes sooner, which, as discussed above, would help FICC address issues identified with its current margin calculation; and (iii) the remaining change is non-substantive. Accordingly, the Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 1, on an accelerated basis, pursuant to Section 19(b)(2) of the Exchange Act.[267]

VI. Conclusion

On the basis of the foregoing, the Commission finds that the Proposed Rule Change, as modified by Amendment No. 1, is consistent with the requirements of the Exchange Act, in particular, with the requirements of Section 17A of the Exchange Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Exchange Act,[268] that proposed rule change SR–FICC–2018–001, as modified by Amendment No. 1, be, and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[269]

Eduardo A. Aleman,

Assistant Secretary.

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[251] Ronin Letter II at 3.

[252] *Id.*

[253] *Id.*

[254] FICC Letter I at 5; FICC Letter II at 8–9.

[255] FICC Letter I at 5; FICC Letter II at 8–9.

[256] FICC Letter I at 5.

[257] Amendment No. 1, *supra* note 6.

[258] *Id.*

[259] 17 CFR 240.17Ad–22(e)(23)(ii).

[260] 15 U.S.C. 78s(b)(1).

[261] 17 CFR 240.19b–4.

[262] 12 U.S.C. 5465(e)(1)(A).

[263] *See* Notice, *supra* note 3.

[264] *See* 17 CFR 240.19b–4(l).

[265] *Available at http://www.dtcc.com/legal/sec-rule-filings.*

[266] 17 CFR 240.17Ad–22(e)(23)(ii).

[267] 15 U.S.C. 78s(b)(2).

[268] *Id.*

[269] 17 CFR 200.30–3(a)(12).