

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–103941; File No. SR–FICC–2025–017]

### Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving of Proposed Rule Change To Revise the Definition of the Backtesting Charge

September 10, 2025.

#### I. Introduction

On July 23, 2025, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b–4 thereunder,<sup>2</sup> proposed rule change SR–FICC–2025–017 (“Proposed Rule Change”) to make changes to FICC’s Government Securities Division (“GSD”) Rule Book to revise the definition of the Backtesting Charge. The Proposed Rule Change was published for comment in the **Federal Register** on August 5, 2025.<sup>3</sup> The Commission has received no comments on the Proposed Rule Change. For the reasons discussed below, the Commission is approving the Proposed Rule Change.<sup>4</sup>

#### II. Background

FICC is a central counterparty (“CCP”), which means it interposes itself as the buyer to every seller and seller to every buyer for the financial transactions it clears. FICC’s GSD provides trade comparison, netting, risk management, settlement, and central counterparty services for the U.S. Government securities market.<sup>5</sup> As such, FICC is exposed to the risk that one or more of its members may fail to make a payment or to deliver securities.

A key tool that FICC uses to manage its credit exposures to its members is determining the appropriate margin to collect from members and monitoring its sufficiency. A member’s Required Fund Deposit (or Segregated Customer Margin, when applicable), which serves as margin, is designed to mitigate potential losses associated with

liquidation of the member’s portfolio in the event of that member’s default. The aggregated amount of all GSD members’ Required Fund Deposits constitutes the Clearing Fund, which FICC would be able to access should a defaulted member’s own margin be insufficient to satisfy losses to FICC caused by the liquidation of that member’s portfolio.<sup>6</sup> Similarly, FICC would be able to access Segregated Customer Margin in the event of the default of the Segregated Indirect Participant for which that margin is held.<sup>7</sup>

Each member’s Required Fund Deposit or Segregated Customer Margin amount consists of a number of applicable components, each of which is calculated to address specific risks faced by FICC.<sup>8</sup> FICC employs daily backtesting to determine the adequacy of each member’s margin amount, comparing the Required Fund Deposit or Segregated Customer Margin with the simulated liquidation gains/losses using the actual positions in the member’s portfolio and the actual historical returns.<sup>9</sup> FICC performs this backtesting both for internal reporting and in connection with the calculation of the Backtesting Charge margin component, which is discussed further below.<sup>10</sup> FICC investigates the cause of any backtesting deficiencies, particularly backtesting deficiencies that bring the results for that member below its 99 percent confidence target (*i.e.*, greater than two backtesting deficiency days in a rolling 12-month period), to determine any identifiable cause of repeat deficiencies or a same underlying reason for multiple members’ backtesting deficiencies.<sup>11</sup>

The Backtesting Charge is an additional charge that may be added to a Required Fund Deposit or Segregated Customer Margin requirement for start of day and/or intraday margin collection.<sup>12</sup> FICC may assess the Backtesting Charge if the firm has a 12-month trailing backtesting coverage

below the 99 percent backtesting coverage target.<sup>13</sup> If assessed, the Backtesting Charge is generally equal to the firm’s third largest deficiency that occurred during the previous 12 months, but FICC may adjust it to an amount that FICC determines is more appropriate for maintaining that firm’s backtesting results above the 99 percent coverage threshold.<sup>14</sup> FICC calculates the Backtesting Charge at least monthly and, based on those calculations, may impose a new Backtesting Charge, remove an existing Backtesting Charge, or either increase or decrease an existing Backtesting Charge as necessary to maintain its target backtesting coverage.<sup>15</sup>

#### III. Description of the Proposed Rule Change

FICC is proposing to revise the definition of the Backtesting Charge in the Margin Component Schedule of the GSD Rules to clarify the current calculation of that charge and adopt a change to the calculation.

First, FICC is proposing clarifications to the definition of Backtesting Charge to reflect FICC’s current practice. The Proposed Rule Change would explicitly state that the backtesting coverage calculated in connection with the Backtesting Charge and the calculation of that charge do not include amounts already collected from that member as a Backtesting Charge. FICC states that by excluding amounts already collected as a Backtesting Charge from this calculation, FICC is able to more accurately evaluate a firm’s historical backtesting deficiencies to determine any appropriate Backtesting Charge amount to maintain that firm’s backtesting coverage above the 99 percent confidence threshold.<sup>16</sup>

The Proposed Rule Change would also clarify that the backtesting coverage calculation described in the definition is the coverage “calculated for purposes of calculating the Backtesting Charge,” distinguishing it from backtesting that FICC performs for other purposes which may use a different methodology. FICC states that because methodologies may differ, this aspect of the Proposed Rule Change would preclude confusion between the different coverage calculations.<sup>17</sup> The Proposed Rule Change would also remove the defined terms for “Intraday Backtesting Charge” and “Regular Backtesting Charge” from

<sup>6</sup> See GSD Rule 4 (Clearing Fund and Loss Allocation), *supra* note 4.

<sup>7</sup> See GSD Rule 4, Section 1a, *id.*

<sup>8</sup> See GSD Rules (Margin Component Schedule), *supra* note 4. These components include, as applicable, the VaR Charge, Blackout Period Exposure Adjustment, Backtesting Charge, Holiday Charge, Intraday Supplemental Fund Deposit, Margin Liquidity Adjustment Charge, and Portfolio Differential Charge.

<sup>9</sup> See Notice of Filing, *supra* note 3, 90 FR at 37609. Backtesting is an ex-post comparison of actual outcomes (*i.e.*, the actual margin collected) with expected outcomes derived from the use of margin models. See 17 CFR 240.17Ad–22(a)(1).

<sup>10</sup> *Id.*

<sup>11</sup> See Notice of Filing, *supra* note 3, 90 FR at 37609.

<sup>12</sup> GSD Rules (Margin Component Schedule), Section 5, *supra* note 4.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> See Notice of Filing, *supra* note 3, 90 FR at 37609.

<sup>17</sup> *Id.*

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b–4.

<sup>3</sup> See Securities Exchange Act Release No. 103602 (July 31, 2025), 90 FR 37608 (Aug. 5, 2025) (File No. SR–FICC–2025–017) (“Notice of Filing”).

<sup>4</sup> Capitalized terms not defined herein shall have the meanings ascribed to them in the GSD Rules, available at <https://www.dtcc.com/legal/rules-and-procedures.aspx>.

<sup>5</sup> FICC’s Mortgage-Backed Securities Division provides similar services for mortgage-backed securities. For purposes of this Order, “FICC” refers to GSD.

the definition, but continue to state that the Backtesting Charge may be calculated on both the start of day and intraday portfolio of members. FICC states that because the Backtesting Charge that is calculated and collected at the start of day and intraday are otherwise identical, the two separate defined terms are not necessary.<sup>18</sup>

Second, the Proposed Rule Change would revise the calculation of the backtesting coverage calculated in connection with the Backtesting Charge and the calculation of that charge by excluding from the calculation other margin amounts already collected intraday from the member. FICC states that this aspect of the Proposed Rule Change would remove from these calculations an assumption that FICC would collect all intraday margin requirements before the member defaults, because this assumption could underestimate the potential losses that FICC may experience if the member defaults prior to funding its intraday margin calls.<sup>19</sup> FICC states that similar to excluding amounts already collected as a Backtesting Charge, as is the current practice described above, excluding other margin collected intraday would make it less likely for FICC to undercount potential backtesting deficiencies.<sup>20</sup> The Proposed Rule Change would reflect both the clarification of the exclusion of the Backtesting Charge and the change to also exclude all other intraday margin collection from the Backtesting Charge calculations, in a new paragraph in the definition.

FICC conducted an impact study on Backtesting Charges collected for the period beginning June 3, 2024, through May 30, 2025 (“Impact Study”).<sup>21</sup> Overall, the Impact Study shows an increase in margin collection if the Proposed Rule Change to exclude amounts collected intraday from the Backtesting Charge calculation methodology had been in place.<sup>22</sup> Specifically, the Impact Study shows that the aggregate average daily Backtesting Charges for the start of day and intraday margin cycles would have increased by approximately \$166.61MM or 121.2% and \$137.41MM or 90.3%, respectively, accounting for a 0.30% increase in overall margin for the start of day margin cycle and 0.25% increase

for the intraday margin cycle. The Impact Study also shows that 29 Members would have seen increases to the Backtesting Charge applied during the start of day margin cycle and 19 Members for the intraday margin cycle.

#### IV. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act<sup>23</sup> directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. After careful review of the Proposed Rule Change, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to FICC. In particular, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act<sup>24</sup> and Rules 17Ad-22(e)(4)(i) and (e)(6)(i) thereunder.<sup>25</sup>

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

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions, and assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.<sup>26</sup> The Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act for the reasons stated below.

As discussed in Part II, FICC determines and monitors the appropriate margin to collect from members to mitigate potential losses from liquidation of a member's portfolio in the event of that member's default. The Backtesting Charge is a component of that margin, added when the member has a 12-month trailing backtesting coverage below the 99 percent backtesting coverage target. This helps ensure FICC collects sufficient margin to manage risk exposure to its members. As discussed in Part III, the Proposed Rule Change would clarify the current methodology for the calculation of the Backtesting Charge and incorporate a revision to it by clearly stating the exclusion of both the Backtesting Charge and other margin collected intraday

from these calculations. Additionally, the Proposed Rule Change would further clarify the definition of Backtesting Charge by removing unnecessary defined terms for “Intraday Backtesting Charge” and “Regular Backtesting Charge,” which are calculated and collected in the same way, and by clearly stating that the backtesting coverage referred to in the definition is the coverage that is calculated for purposes of calculating the Backtesting Charge. Thus, the Proposed Rule Change would make the GSD Rules clearer and more transparent regarding calculation of the Backtesting Charge.

In addition, as discussed in Part III, FICC is proposing to revise its margin calculation methodology to also exclude from the Backtesting Charge calculations other margin collected on an intraday basis. This proposed change would remove the assumption that a member would only default after it had met those intraday margin requirements, which could lead to an underestimation of potential losses if that member defaults prior to funding intraday margin calls. The Impact Study, which the Commission reviewed and analyzed as part of its consideration of this Proposed Rule Change, demonstrates that this revision to the calculations would result in an increase in the margin collected. Such an increase in FICC's available financial resources would decrease the likelihood that losses arising out of a member default would exceed FICC's prefunded resources and in a disruption of FICC's operation of its critical clearance and settlement services.

Because the clarifications to the margin calculation methodology should allow members to better anticipate their margin obligations to FICC and the revisions to the methodology should generally provide FICC with additional resources to manage potential losses arising out of a member default, the Proposed Rule Change should support FICC's ability to provide prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.<sup>27</sup>

Additionally, the Proposed Rule Change should allow FICC to collect margin in amounts that would maintain a member's backtesting results above the 99 percent coverage threshold, thus helping ensure FICC is collecting sufficient margin to cover potential losses in the event of that member's default. This should help limit nondefaulting members' exposure to mutualized losses since FICC would

<sup>18</sup> *Id.*

<sup>19</sup> *Id.* at 37610.

<sup>20</sup> *Id.*

<sup>21</sup> As part of the Proposed Rule Change, FICC filed, as Exhibit 3, the Impact Study. Pursuant to 17 CFR 240.24b-2, FICC requested confidential treatment of Exhibit 3.

<sup>22</sup> See Notice of Filing, *supra* note 3, 90 FR at 37610.

<sup>23</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>24</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>25</sup> 17 CFR 240.17Ad-22(e)(4)(i) and (e)(6)(i).

<sup>26</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>27</sup> *Id.*

access the mutualized Clearing Fund should a defaulted member's own margin be insufficient to satisfy losses to FICC caused by the liquidation of that member's portfolio. By helping to limit the exposure of FICC's non-defaulting members to mutualized losses, the Proposed Rule Change should help FICC assure the safeguarding of securities and funds which are in its custody or control, consistent with Section 17A(b)(3)(F) of the Act.<sup>28</sup>

#### *B. Consistency With Rule 17Ad-22(e)(4)(i)*

Rule 17Ad-22(e)(4)(i) requires that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those 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.<sup>29</sup>

As discussed above, the Backtesting Charge is assessed when a member has a 12-month trailing backtesting coverage below the 99 percent coverage target. The Proposed Rule Change clarifying and revising the margin calculation methodology for this margin component should help FICC collect margin that would maintain a member's backtesting results above the 99 percent coverage threshold. The Impact Study, which the Commission reviewed and analyzed as part of its consideration of this Proposed Rule Change, demonstrates that this revision to the calculations would result in an increase in the margin collected. These changes should better enable FICC to calculate and collect sufficient margin to manage and mitigate FICC's credit exposure to its members. By helping FICC maintain sufficient financial resources to cover such exposures fully with a high degree of confidence, the Proposed Rule Change is reasonably designed to enable FICC to effectively identify, measure, monitor, and manage its credit exposure to participants, consistent with Rule 17Ad-22(e)(4)(i).<sup>30</sup>

#### *C. Consistency With Rule 17Ad-22(e)(6)(i)*

Rule 17Ad-22(e)(6)(i) requires, among other things, that FICC 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.<sup>31</sup>

As discussed above, the Proposed Rule Change would revise the margin calculation methodology for the Backtesting Charge to exclude other margin collected on an intraday basis. The Impact Study, which the Commission reviewed and analyzed as part of its consideration of this Proposed Rule Change, demonstrates that this revision to the calculations would result in an increase in the margin collected. By removing the assumption that members would only default after they had met those intraday margin requirements, this change to the calculation methodology should lessen the likelihood of underestimating potential losses if a member defaults prior to funding intraday margin calls. Therefore, the proposed change to the calculation would make it less likely for FICC to undercount potential backtesting deficiencies and better cover FICC's credit exposures to its members, consistent with the requirements of Rule 17Ad-22(e)(6)(i).<sup>32</sup>

#### **V. Conclusion**

On the basis of the foregoing, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A of the Act<sup>33</sup> and the rules and regulations promulgated thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act<sup>34</sup> that proposed rule change SR-FICC-2025-017, be, and hereby is, APPROVED.<sup>35</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>36</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-103940; File No. SR-FICC-2025-019]

### **Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change To Establish a New Collateral-in-Lieu Offering Within the Sponsored GC Service, and Expand the Sponsored GC Service To Allow a Sponsoring Member To Submit for Clearing a "Done-Away" Sponsored GC Trade**

September 10, 2025.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August 29, 2025, Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change consists of amendments to the FICC Government Securities Division ("GSD") Rulebook ("Rules")<sup>3</sup> to (i) establish a new Collateral-in-Lieu ("CIL") offering ("CIL Service") within the existing Sponsored GC Service, and (ii) expand the Sponsored GC Service to allow a Sponsoring Member to submit for clearing a "done-away" Sponsored GC Trade (*i.e.*, a Sponsored GC Trade between its Sponsored Member and either a Netting Member other than the Sponsoring Member or another Indirect Participant of any Netting Member). The proposed rule changes are designed to facilitate access to FICC's clearance and settlement services, including by indirect participants, in accordance with the requirements of Rule 17Ad-22(e)(18) under the Act.<sup>4</sup>

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

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed

<sup>28</sup> *Id.*

<sup>29</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>30</sup> *Id.*

<sup>31</sup> 17 CFR 240.17Ad-22(e)(6)(i).

<sup>32</sup> *Id.*

<sup>33</sup> 15 U.S.C. 78q-1.

<sup>34</sup> 15 U.S.C. 78s(b)(2).

<sup>35</sup> In approving the Proposed Rule Change, the Commission considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>36</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Capitalized terms not defined herein are defined in the Rules, available at <http://www.dtcc.com/legal/rules-and-procedures>.

<sup>4</sup> 17 CFR 240.17Ad-22(e)(18).