

FICC submits modifications for its GSD Rulebook

On March 11 & 14, 2024, the Fixed Income Clearing Corporation (FICC) submitted modifications to the Securities and Exchange Commission (SEC) related to the FICC Government Securities Division (GSD) Rulebook (Rulebook). These modifications of the Rulebook are important for firms' implementation of the recent SEC Rule 34-99149.¹ FICC will publish a notice on its website, upon SEC approval, of the proposal and implement the guidelines by March 31, 2025. The Depository Trust and Clearing Corporation (DTCC) has released two regulatory rule filings with modifications to the Rulebook; below is a summary of primary updates to the Rulebook.



Impacts to your organization

SR-FICC-2024-005: "Modify the GSD Rules to Facilitate Access to Clearance and Settlement Services of All Eligible Secondary Market Transactions in U.S. Treasury Securities"²

- **Agent clearing service:** Re-names GSD's correspondent clearing / prime broker services as the Agent Clearing Service and adopt provisions that are common in agent clearing models which would continue to allow Netting members to submit transactions to the FICC for novation on behalf of their customers; thus, Netting members would undergo an application process to become "Agent Clearing Members" with potential new requirements.
- **Membership qualifications:** Updates the qualifications for certain membership categories and rules governing the operation of GSD's access models by: (a) eliminating the two Sponsoring Member categories and applying to all Sponsoring Members the qualifications applicable to the current Category 2 Sponsoring Members; (b) removing the requirement that Sponsored Members either be "qualified institutional buyers", as such term is defined by Rule 144A under the Securities Act of 1933, or satisfy the financial requirements of such definition; (c) clarifying the eligibility criteria for non-U.S. Netting Member applicants; and (d) describing how the FICC may consider Netting Member applicants that do not qualify under an existing Netting Member category.
- **Membership types:** Improves the transparency and clarity of the Rules in describing the types of memberships available to legal entities that want to access GSD's central clearing services and the different ways both Members and, indirectly, legal entities that are not Members can access those services by creating a public road map for access models and membership types in Rule 2 and simplifying definitions of membership categories and other related definitions.

¹ SEC Release No. 34-99149, December 13, 2023.

² DTCC Regulatory Rule Filing SR-FICC-2024-005, March 11, 2024.

³ DTCC Regulatory Rule Filing SR-FICC-2024-007, March 14, 2024.

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SR-FICC-2024-007: "Modify the GSD Rules: (i) Regarding the Separate Calculation, Collection and Holding of Margin for Proprietary Transactions and That for Indirect Participant Transactions, and (ii) to Address the Conditions of Note H to Rule 15c3-3a"³

- **FICC margin calculations:** Provides separate and independent calculations, collections, and holdings of (i) margin deposited by a Netting Member to support its proprietary transactions and (ii) margin deposited by a Netting Member to support the transactions of an indirect participant by introducing Rule 2B that states the FICC can establish proprietary accounts to record the transactions that the Netting Member enters into for its own benefit and separately establish indirect participant accounts to record transactions that the Netting Member submits to the FICC for clearance and settlement on behalf of an indirect participant.
- **Customer margin:** Clarifies that the FICC will segregate certain customer margin in a manner that satisfies the conditions for a broker-dealer to record a debit in the customer or proprietary accounts of broker-dealers reserve formula under recently added Note H to Rule 15c3-3a.
- **FICC's margin methodology:** Aligns with the expanded account types, consolidate the terms relating to margin calculation in a single, easily identifiable schedule, and make certain changes to the methodology to increase precision and predictability.
- **Brokered transactions:** Modifies the terms relating to brokered transactions to require that only transactions that an Inter-Dealer Broker Netting Member executes, on the Inter-Dealer Broker Netting Member's own trading platform, benefit from favorable loss allocation treatment.

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