FICC Update to TMPG

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Sponsoring/Sponsored Member Service Update

- Sponsored Member Eligibility: Any legal entity that satisfies the QIB standard and has at least one Sponsoring Member willing to sponsor it into FICC/GSD membership is eligible to participate in the program as a Sponsored Member.
- Eligible Transactions: Include two-directional (i.e., cash borrowing and cash lending) overnight and term DVP repo in U.S. Treasury and Agency securities; and outright purchases and sales of such securities.
- Role of Sponsoring Member:
  - Acts as processing agent on behalf of its Sponsored Members.
  - Responsible to FICC for posting all of the Clearing Fund associated with the activity of the Sponsoring Member Omnibus Account, which is calculated twice daily on a gross basis.
  - Required to provide a guaranty to FICC with respect to all obligations of its Sponsored Members, so that if a Sponsored Member does not satisfy any of its obligations to FICC, FICC can invoke the Sponsoring Member's guaranty.
  - Liquidity needs created by activity in the Sponsoring Member Omnibus Account will be considered when calculating the Sponsoring Member's Capped Contingent Liquidity Facility (CCLF) requirement.

Expansion of FICC Sponsoring Member/Sponsored Member Service (Subject to Regulatory Approval)

- Currently, Sponsoring Member eligibility is limited to GSD Bank Netting Members that are (i) "well-capitalized" (as defined by applicable regulations) and (ii) have at least $5 billion in equity capital.
- FICC proposes to create a second category of entities eligible to become Sponsoring Members in addition to Bank Netting Members that are "well-capitalized" (as defined by applicable regulations) and have at least $5 billion in equity capital (hereinafter, "Category 1 Sponsoring Members"). The second category of entities eligible to become Sponsoring Members would include all other GSD Netting Members except for Inter-Dealer Broker Netting Members (hereinafter "Category 2 Sponsoring Members").
  - Note: FICC's reasoning for excluding Inter-Dealer Broker Netting Members from eligibility for consideration as a Category 2 Sponsoring Member is that Inter-Dealer Broker Netting Members have a cap on their default loss allocation obligations to FICC that does not apply to other GSD Netting Members (see GSD Rule 4, Section 7(e)).

Expansion of FICC Sponsoring Member/Sponsored Member Service (Subject to Regulatory Approval)

Expansion of Sponsoring Member Eligibility (Cont.)

- In light of the fact that Category 2 Sponsoring Members may not have an equivalent regulatory standard to "well-capitalized" or be subject to the same type of prudential supervision as a Category 1 Sponsoring Member, FICC proposes to impose an activity limit on a Category 2 Sponsoring Member's Sponsored Member activity.
- Employing the same Risk procedures that are utilized to surveil GSD Netting Members for breaches of the Excess Capital Ratio, a Category 2 Sponsoring Member would only be permitted to novate new Sponsored Member activity to FICC to the extent such Category 2 Sponsoring Member's aggregate VaR charges, inclusive of its Sponsored Member activity and its Netting Member activity (hereinafter "Aggregate VaR Charges") do not exceed its Net Capital.
- For as long as the Category 2 Sponsoring Member's Aggregate VaR Charges exceeds its Net Capital, it would not be permitted to submit new Sponsored Member activity to FICC until such time as its Net Capital again equals or exceeds its Aggregate VaR Charges, unless otherwise determined by FICC in order to promote orderly settlement.

Expansion of FICC Sponsoring Member/Sponsored Member Service (Subject to Regulatory Approval)

<u>Expansion of Sponsoring Member Eligibility (Cont.)</u>

- FICC also proposes to reserve the right to impose higher minimum financial standards on an applicant to become a Category 2 Sponsoring Member than otherwise would apply to such applicant as a Netting Member depending upon the overall financial condition of the applicant as well as the anticipated risk associated with the volume and types of Sponsored Member transactions the applicant proposes to process through FICC.
- Moreover, in order to be consistent with the FICC's authority under Section 7 of GSD Rule 3 (Ongoing Membership Requirements) with respect to Members and applicants to become such, FICC also proposes to reserve the right to require a Sponsoring Member in its capacity as such, or any Netting Member applicant to become a Sponsoring Member, to furnish adequate assurances of its financial responsibility or operational capability within the meaning of and according to the same conditions as set forth in Section 7 of GSD Rule 3.

Expansion of FICC Sponsoring Member/Sponsored Member Service (Subject to Regulatory Approval)

Sponsored Member Trading Activity

- The term "Sponsored Member Trade" is currently defined in GSD Rule 1 as "a transaction between a Sponsored Member and its Sponsoring Member . . ."
- Certain prospective Sponsoring Members have expressed interest in allowing their Sponsored Members to trade in clearing with GSD Netting Members other than themselves.
- In light of the fact that a Sponsoring Member is, in all cases, in control of what activity it submits for clearing on behalf of its Sponsored Members, and in turn, its related Clearing Fund, CCLF and Sponsoring Member Guaranty obligations to FICC, FICC proposes to allow a Sponsoring Member to establish a Sponsoring Member Omnibus Account that would permit its Sponsored Members to trade in clearing with any GSD Netting Member, including, but not limited to, themselves.
  - ➢ Note: This account could be in addition to or in lieu of a traditional Sponsoring Member Omnibus Account through which a Sponsored Member client could only trade with its Sponsoring Member.

Same Day Start Leg Repo Settlement

Proposal Summary:

- Expands trade novation, guarantee and risk management services to the start leg of same-day settling DVP repo trades.
- All eligible start legs will settle directly vs. FICC.
- Offers a facility to pair-off Members' failing obligations in an automated process at the end of the day.

Timeline:

- Industry Outreach: Outreach began in June 2017 began working with the IDBs and 25 GSD members to create the initial proposal. To-date over 70 meetings have been held.
- Client Testing: Estimated to commence late Q2 2019.
- Production 'Go Live' Date: Estimated late Q3 2019 (subject to regulatory approval).

GSD-MBSD Common Margining

- Currently, separate Required Fund Deposits (i.e., margin) of separate Clearing Funds are calculated for Members of each Division of FICC based on a netting or non-netting option across accounts within such Division.
- The Common Margining Proposal would create one Clearing Fund for FICC and would give GSD Members and MBSD Members (collectively, "Common Members") the ability to combine their GSD positions with their MBSD positions into a single margin portfolio.
- For Common Members that choose to net their GSD accounts and MBSD accounts, a single common margin portfolio would be submitted to the GSD sensitivity VaR engine to calculate the VaR Charge.
- For Common Members that choose not to net their GSD accounts and MBSD accounts, multiple margin portfolios (one for each account) would be submitted to the GSD sensitivity VaR engine to calculate a VaR Charge for each margin portfolio and then aggregated to such Member's Required Fund Deposit.
- The proposal would also conform certain aspects of margin methodology and the MBSD Cash Settlement process/GSD Funds-Only Settlement process between the Divisions.
- Based on initial studies, FICC estimates that the margin benefit would be in the range of $1.5 billion - $2.0 billion (or approximately 10-15%) across FICC.

Revised Fee Structure

- The Fee restructure was implemented July 1, 2018.
- The fee restructure was revenue neutral to FICC I as expected.
- Firms that trade a large volume of cash activity have found this new structure very attractive.