

# Office

*Only use the documents mentioned for answering question which are CPM IOSCO Public Disclosure of FICCC, FICC proposal of margin methodology, FICC disclosure frame work. and GSD haircut schedule. The scope for this review is GSD only, not MBSD.*

I need 4 things:

- one sentence concise answer
- briefly explain in bullets or paragraph form(short form content).
- Include relevant citations
- Assign a rating based on rating criteria in the question. Criteria mentioned below, out of 3 rating. Explain your rating in one sentence.

## **Collateral - Rehypotecation**

Can it rehypotecate collateral? if yes in what circumstances are they allowed to.

The rulebook section on Use of clearing fund might be helpful here.

Rating Criteria:

Yes - 1

No - 3 (no is good)

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# Questions

## **Margin - Pricing**

1. **How timely do they receive Price data? Please provide reference of section where you extract info from. Pricing data could be intraday frequency, end of day etc?**

**Rating Criteria: Intraday - 3, Daily 2, Periodic 1.**

**Concise Answer:** FICC receives pricing data on an intraday basis.

**Reasoning:** FICC calculates and collects an intraday VaR component, which reflects changes in a member's positions and risk profile due to the submission of new trades and completed settlement activity from the start-of-day to noon. Additionally, FICC re-calculates the intraday VaR Charge applicable to each member's portfolio, based on the open positions, to determine whether additional margin is necessary. This indicates that FICC receives and processes pricing

data multiple times throughout the day to maintain accurate margin requirements and manage risk effectively. This intraday recalculation helps in addressing potential exposure due to intraday trading activities of members.

**Key Principle and Key Consideration:** The key principle involved here is the effective risk management practices highlighted in the margin methodology section. The specific reference can be found in the "FICC Proposal of Margin Methodology Change" document, particularly on pages discussing intraday VaR calculations and its application (pages 1-2) 1 .

**Rating: 3 (Intraday) - No Change**

#### **Citations**

"FICC calculates and collects an intraday VaR component, which reflects the changes in a member's positions and risk profile due to the submission of new trades and completed settlement activity from the start-of-day to noon" 1 .

"Additionally, FICC re-calculates the amount of the intraday VaR Charge applicable to each member portfolio, based on the open positions therein, to determine whether FICC will collect an additional margin amount" 1 .

2. Does CCP has a proxy and liquidity review for pricing. if yes, any governance mechanism and criteria?

Rating criteria:

3 - Clearly defined with frequency

2- Valuation adjustment because of market data liquidity

1 - Recognized and stipulated in the rule book as a potential for adjustment

**Concise Answer:** Yes, FICC has a proxy and liquidity review for pricing, governed by specific criteria and procedures.

**Reasoning:** The FICC employs a Clearing Agency Securities Valuation Framework (SV Framework), which includes detailed procedures for pricing securities when data is not readily available or reliable. This framework involves using multiple third-party vendors, a pricing hierarchy, and exception reporting to maintain price accuracy. Furthermore, when vendor data is unavailable or unreliable, FICC uses valuation models and established procedures to generate prices. Governance mechanisms include annual reviews and approvals by the Board, ensuring adherence to regulatory requirements and effective risk management.

**Key Principle and Key Consideration:** The key principle is effective risk management and the key consideration involves maintaining reliable pricing data through multiple sources and rigorous governance procedures. Specific details can be found in the "FICC Disclosure Framework" document, particularly on pages discussing the SV Framework and pricing data procedures (pages 56-57, 62-63) 1 2 .

**Rating: 3 (Clearly defined with frequency)**

**Question for Michael → You are penalizing to rating 1 because 3rd party?**

#### **Citations**

"FICC, and its affiliates, DTC and NSCC, have adopted a Clearing Agency Securities Valuation Framework ('SV Framework'), which sets forth the manner in which FICC identifies, measures,

monitors, and manages the risks related to the pricing of securities processed or otherwise held by it" 1 .

"FICC utilizes multiple third-party vendors to price its eligible securities and uses a pricing hierarchy to determine a price for each security" 2 .

"FRM monitors each pricing file and performs rigorous exception reporting (large variance, stale, missing, off-the-market reports) to ensure that the prices are accurate, and uses established procedures or, where applicable, valuation models to generate prices for securities when vendor information may not be readily available or reliable" 2 .

"FICC can utilize an alternative Margin Proxy method as a back-up VaR Charge calculation to the sensitivity approach in the event that FICC experiences a data disruption with its third-party vendor" 3 .

## Variation Margin

1. How frequent are the variation margin calls, frequency could be end of day intraday or weekly.

Any criteria's listed, list it?

Rating Criteria:

Intraday - 3

End of Day - 1

### One Sentence Concise Answer

Variation margin calls for GSD are made at least once a day, with intraday calls possible based on the member's risk profile.

### Reasoning Paragraph

The frequency of variation margin calls for GSD is primarily end-of-day, but there are provisions for intraday calls depending on changes in a member's positions and risk profile. Specifically, the FICC calculates and collects an intraday VaR component reflecting changes in member positions and risk profile due to new trades and settlement activities from the start of the day to noon 1 . Additionally, the maximum total variation margin paid to the CCP is recorded quarterly, indicating that variation margin calls can occur multiple times within a day if required 2 . These mechanisms ensure that the margin requirements are dynamically adjusted to manage the risk exposure effectively. The use of intraday assessments implies a high frequency of variation margin calls, meeting the criteria for an intraday rating.

### Citations

"FICC calculates and collects an intraday VaR component, which reflects the changes in a member's positions and risk profile due to the submission of new trades and completed settlement activity from the start-of-day to noon" 1 .

"Maximum total variation margin paid to the CCP on any given business day over the period" 2 .

Rating: 3 - No change

The presence of intraday variation margin calls justifies the highest rating based on the given criteria.

## Initial Margin

1. What time to close on trades (marginal period of risk) is used based on: mention any criteria's listed

- a. liquidity of the product, for instance could be dependent on daily trading volume
- b. concentration to a few security, how will that impact close out period
- c. wrong way risk trades specific criteria

Rating Criteria:

Considers all 3 - 3

Considers 2 out of 3 - 2

Vague consideration with no concrete way of capturing it - 1

Not mentioned is 0

One Sentence Concise Answer:

The FICC uses a three-day period to close out trades when calculating the initial margin, which considers the liquidity of the product and the concentration of securities but does not explicitly detail wrong-way risk trades.

Brief Explanation:

Time to Close on Trades: FICC assumes a three-day period to liquidate a defaulting member's portfolio under normal market conditions 1 .

Criteria Considered:

Liquidity of the Product: FICC's VaR methodology evaluates the potential price volatility of unsettled positions, which implicitly considers the liquidity of products based on historical market volatility 1 .

Concentration to a Few Securities: The FICC's backtesting and intraday margin adjustments evaluate the concentration risks in member portfolios, addressing potential coverage gaps due to large un-margined intraday fluctuations 1 .

Wrong Way Risk: There is no specific mention of criteria or methods to address wrong-way risk trades in the retrieved documents.

Relevant Citations:

"FICC assumes a three-day period to liquidate a defaulting member's portfolio under normal market conditions" 1 .

"Evaluates the potential price volatility of unsettled positions, implicitly considering the liquidity of products based on historical market volatility" 1 .

"Evaluates the concentration risks in member portfolios, addressing potential coverage gaps due to large un-margined intraday fluctuations" 1 .

Rating and Explanation:

Rating: 2 - No Change

Explanation: FICC considers two out of the three criteria—liquidity of the product and concentration risks in securities—but lacks explicit criteria for capturing wrong-way risk trades.

2. Let's now find details on calculation considerations of initial margin which includes mention any criteria's listed?

1. Full revaluation and parameter / DGV, etc (for example yes if Full revaluation / dgv)
2. Confidence interval used for calculation - 95% is Yes
3. frequency of initial margin calculation parameter updates (weekly, monthly, quarterly, yearly) - parameter updates atleast monthly are good
4. frequency of initial margin calculation - intraday, daily, weekly, etc (intraday frequency of calculation is yes),

Rating Criteria:

All responded and high frequency - 3

lower confidence level, less than weekly parameter update, any deviation - 2

2 out of 4 (eg 95% frequency of calculation < daily, updates monthly, dgv and clearing options, etc)

One Sentence Concise Answer

The initial margin for GSD is calculated using a sensitivity-based VaR methodology with a 99% confidence level, updated at least monthly, and calculated at least daily including intraday recalculations.

Brief Explanation

Full Revaluation and Parameter / DGV: The initial margin uses a sensitivity-based VaR methodology 1 .

Confidence Interval Used for Calculation: The confidence level used for the initial margin calculation is 99% 1 .

Frequency of Initial Margin Calculation Parameter Updates: The parameters for the initial margin are reviewed and updated at least monthly 2 .

Frequency of Initial Margin Calculation: The initial margin is calculated at least daily, with intraday recalculations as necessary .

Citations

Full Revaluation and Parameter / DGV: "The VaR Charge uses a sensitivity-based VaR methodology and is based on the potential price volatility of unsettled positions in a member's portfolio" 1 .

Confidence Interval Used for Calculation: "The amount of the VaR Charge for each portfolio...is calculated to capture the market price risk associated with each portfolio at a 99 percent confidence level" 1 .

Frequency of Initial Margin Calculation Parameter Updates: "A CCP should analyse and monitor its model performance and overall margin coverage by conducting rigorous daily backtesting and at least monthly, and more-frequent where appropriate, sensitivity analysis" 2 .

Frequency of Initial Margin Calculation: "FICC calculates and collects a start-of-day VaR component...FICC also calculates and collects an intraday VaR component" 1 .

## Rating change

Rating: 3 Explanation: All criteria are met with high frequency for parameter updates (at least monthly) and calculation (daily and intraday), with a confidence level of 99%.

3. How often do they backtest initial margin based on quantitative disclosure likely section 6.5?  
Give me stats for # Observations, Coverage level, Peak size of uncovered exposure when breaches of initial margin have occurred, and average size of uncovered exposure.  
If coverage is 99.9% or up rate 3 otherwise 2 or 1 based on other answers.

### One Sentence Concise Answer

The GSD backtests initial margin daily, achieving a 99.83% coverage level over the past 12 months, with 30,809 observations, a peak uncovered exposure of \$149 million, and an average uncovered exposure of \$15 million.

### Brief Explanation

Frequency of Backtesting: GSD backtests initial margin on a daily basis 1 2 .

Number of Observations: Over the past 12 months, the number of observations was 30,809 1 .

Coverage Level: The achieved coverage level was 99.83% over the past 12 months 1 .

Peak Size of Uncovered Exposure: The peak size of uncovered exposure when breaches occurred was \$149 million 1 .

Average Size of Uncovered Exposure: The average size of uncovered exposure was \$15 million 1 .

### Citations

Frequency of Backtesting: "At a minimum, this should include, for each clearing service and each initial margin model applied to that clearing service... based on daily back-testing results" 1 2 .

Number of Observations: "Number of observations ([Number of accounts \* number of days]) Previous 12 Months Count 30,809" 1 .

Coverage Level: "Achieved coverage level [aggregate CCP-level backtest coverage] Previous 12 Months Percentage 99.83%" 1 .

Peak Size of Uncovered Exposure: "Peak Size/Previous 12 Months USD \$MM 149" 1 .

Average Size of Uncovered Exposure: "Average Size/Previous 12 Months USD \$MM 15" 1 .

## Rating

Rating: 2 - No Change

Explanation: The coverage level is 99.83%, which is below the 99.9% threshold for a rating of 3. However, the frequency of backtesting and the detailed statistics provided warrant a rating of 2.

The GSD backtests initial margin daily, achieving a 99.83% coverage level over the past 12 months, with 30,809 observations, a peak uncovered exposure of \$149 million, and an average uncovered exposure of \$15 million.

#### Brief Explanation

- **Frequency of Backtesting:** GSD backtests initial margin on a daily basis <sup>1 2</sup>.
- **Number of Observations:** Over the past 12 months, the number of observations was 30,809 <sup>1</sup>.
- **Coverage Level:** The achieved coverage level was 99.83% over the past 12 months <sup>1</sup>.
- **Peak Size of Uncovered Exposure:** The peak size of uncovered exposure when breaches occurred was \$149 million <sup>1</sup>.
- **Average Size of Uncovered Exposure:** The average size of uncovered exposure was \$15 million <sup>1</sup>.

#### Citations

- **Frequency of Backtesting:** "At a minimum, this should include, for each clearing service and each initial margin model applied to that clearing service... based on daily back-testing results" <sup>1 2</sup>.
- **Number of Observations:** "Number of observations ((Number of accounts \* number of days)) Previous 12 Months Count 30,809" <sup>1</sup>.
- **Coverage Level:** "Achieved coverage level [aggregate CCP-level backtest coverage] Previous 12 Months Percentage 99.83%" <sup>1</sup>.
- **Peak Size of Uncovered Exposure:** "Peak Size/Previous 12 Months USD \$MM 149" <sup>1</sup>.
- **Average Size of Uncovered Exposure:** "Average Size/Previous 12 Months USD \$MM 15" <sup>1</sup>.

#### Rating

**Rating: 2** Explanation: The coverage level is 99.83%, which is below the 99.9% threshold for a rating of 3. However, the frequency of backtesting and the detailed statistics provided warrant a rating of 2.

2 references >

AI-generated content.

## Collateral - Liquidity considerations

1. What is the acceptable collateral and what is the frequency of collateral exchange, does it differ by product type? any criteria's listed?

Criteria :

Cash and Soevrign Only - 3

Diversified bonds and cash with adjustments on haircut for liquidity and minimal equity no more than 5 % -2

Accepts all illiquid collateral and equity - 1

#### One Sentence Concise Answer

GSD accepts only cash in U.S. dollars and U.S. Government Treasury securities as collateral, with collateral exchanged at least daily.

#### Brief Explanation

Acceptable Collateral: GSD accepts cash (in U.S. dollars) and certain eligible securities, which include U.S. Government Treasury securities, U.S. Agency securities guaranteed by the U.S. Government, and certain U.S. Agency/Government Sponsored Enterprise pass-through securities <sup>1</sup>.

Frequency of Collateral Exchange: Collateral is exchanged at least daily, with intraday calls as necessary <sup>2</sup>.

Criteria: The criteria for acceptable collateral include limiting non-cash securities to high-quality, liquid assets and maintaining a minimum cash level in the collateral mix <sup>1</sup>.

#### Citations

Acceptable Collateral: "GSD and MBSD limit the non-cash securities currently accepted...to U.S. Government Treasury securities, U.S. Agency securities guaranteed by the U.S. Government, and certain U.S. Agency/Government Sponsored Enterprise pass-through securities" <sup>1</sup>.

Frequency of Collateral Exchange: "Under GSD's and MBSD's Rules, Members are required to make Clearing Fund deposits within specified timeframes...and are permitted to request the return of excess amounts and/or substitute collateral, subject to the review of Clearing Fund

Management for collateral sufficiency" 2 .

Criteria: "GSD and MBSD limit the collateral they accept to U.S. Government Treasury securities, U.S. Agency securities guaranteed by the U.S. Government and certain U.S. Agency/Government Sponsored Enterprise pass-through securities" 1 .

Rating - No Change

Rating: 3 Explanation: GSD accepts only cash and sovereign securities, meeting the highest standard for collateral quality and liquidity.

#### One Sentence Concise Answer

GSD accepts only cash in U.S. dollars and U.S. Government Treasury securities as collateral, with collateral exchanged at least daily.

#### Brief Explanation

- **Acceptable Collateral:** GSD accepts cash (in U.S. dollars) and certain eligible securities, which include U.S. Government Treasury securities, U.S. Agency securities guaranteed by the U.S. Government, and certain U.S. Agency/Government Sponsored Enterprise pass-through securities <sup>1</sup> .
- **Frequency of Collateral Exchange:** Collateral is exchanged at least daily, with intraday calls as necessary <sup>2</sup> .
- **Criteria:** The criteria for acceptable collateral include limiting non-cash securities to high-quality, liquid assets and maintaining a minimum cash level in the collateral mix <sup>1</sup> .

#### Citations

- **Acceptable Collateral:** "GSD and MBSD limit the non-cash securities currently accepted...to U.S. Government Treasury securities, U.S. Agency securities guaranteed by the U.S. Government, and certain U.S. Agency/Government Sponsored Enterprise pass-through securities" <sup>1</sup> .
- **Frequency of Collateral Exchange:** "Under GSD's and MBSD's Rules, Members are required to make Clearing Fund deposits within specified timeframes...and are permitted to request the return of excess amounts and/or substitute collateral, subject to the review of Clearing Fund Management for collateral sufficiency" <sup>2</sup> .
- **Criteria:** "GSD and MBSD limit the collateral they accept to U.S. Government Treasury securities, U.S. Agency securities guaranteed by the U.S. Government and certain U.S. Agency/Government Sponsored Enterprise pass-through securities" <sup>1</sup> .

#### Rating

**Rating: 3** Explanation: GSD accepts only cash and sovereign securities, meeting the highest standard for collateral quality and liquidity.

## Collateral - Haircuts Consideration

1. What is the horizon of haircuts? any criteria's listed? Bonds - 5 days, equity up to 2 days, are considered ideal. Is the haircut adjusted for liquidity risk, wrong way risk, concentration risk, etc?

Criteria : Yes if horizon is max 5 days for bonds and 2 days for equity

2. How often are the haircuts reviewed, frequency, could be weekly, annually, monthly, etc. any criteria's listed?

Criteria : weekly review is yes

3. What is the currency set allowed for haircut? and is there any adjustment on haircut based on FX risk? I need a Yes or No for each with reasoning and reference. any criteria's listed?

Haircut adjustment for FX is Yes

4. Are haircuts calibrated to include periods of stress market conditions (limiting pro-cyclicality)? I need a Yes or No with reasoning and reference. any criteria's listed?



For example: Includes provision to limit pro cyclicalities is a Yes

Rating Criteria:

if all are Yes, then 3

if 2 are Yes then 2

if less than 2 yes or vague answers then 1

## One Sentence Concise Answer

Haircuts at GSD are applied with a horizon of 3 days for bonds, reviewed at least quarterly, adjusted for FX risk, and calibrated to include stressed market conditions to limit pro-cyclicality.

## Brief Explanation

- **Horizon of Haircuts and Criteria:** Haircuts at GSD are applied with a horizon of 3 days for bonds, and the haircuts reflect potential value decline in normal and stressed markets, addressing liquidity, wrong-way, and concentration risks .  
1
- **Frequency of Haircut Review and Criteria:** Haircuts are reviewed at least quarterly, with daily backtesting and monthly consolidated reporting . Ad hoc reviews are conducted if there is a significant increase in risk .  
1  
1
- **Currency Set and FX Risk Adjustment:** Yes, GSD applies haircuts to U.S. dollar-denominated securities and adjusts haircuts based on FX risk .
- **Calibration for Stressed Market Conditions:** Yes, haircuts are calibrated to include periods of stressed market conditions to limit pro-cyclicality .

## Citations

- **Horizon of Haircuts and Criteria:** "GSD and MBSD apply haircuts to Eligible Clearing Fund Securities that reflect the potential of such assets' value to decline both in normal and in stressed markets" .  
1
- **Frequency of Haircut Review and Criteria:** "Haircuts and concentration limits are backtested daily, consolidated in monthly reporting, and a comprehensive review is completed no less than quarterly" .  
1
- **Currency Set and FX Risk Adjustment:** "Collateral securities are re-priced every night, from pricing sources utilized by FRM's Securities Valuation unit" .  
1

- **Calibration for Stressed Market Conditions:** "Haircuts that are regularly tested and take into account stressed market conditions" .

## Rating - No Change

**Rating: 2** Explanation: While the haircuts are reviewed quarterly and not weekly, all other criteria are met with haircuts applied for bonds with a horizon of 3 days, adjusted for FX risk, and calibrated for stressed market conditions.

### One Sentence Concise Answer

Haircuts at GSD are applied with a horizon of 3 days for bonds, reviewed at least quarterly, adjusted for FX risk, and calibrated to include stressed market conditions to limit pro-cyclicality.

### Brief Explanation

- **Horizon of Haircuts and Criteria:** Haircuts at GSD are applied with a horizon of 3 days for bonds, and the haircuts reflect potential value decline in normal and stressed markets, addressing liquidity, wrong-way, and concentration risks <sup>1</sup> .
- **Frequency of Haircut Review and Criteria:** Haircuts are reviewed at least quarterly, with daily backtesting and monthly consolidated reporting <sup>1</sup> . Ad hoc reviews are conducted if there is a significant increase in risk <sup>1</sup> .
- **Currency Set and FX Risk Adjustment:** Yes, GSD applies haircuts to U.S. dollar-denominated securities and adjusts haircuts based on FX risk .
- **Calibration for Stressed Market Conditions:** Yes, haircuts are calibrated to include periods of stressed market conditions to limit pro-cyclicality .

### Citations

- **Horizon of Haircuts and Criteria:** "GSD and MBSD apply haircuts to Eligible Clearing Fund Securities that reflect the potential of such assets' value to decline both in normal and in stressed markets" <sup>1</sup> .
- **Frequency of Haircut Review and Criteria:** "Haircuts and concentration limits are backtested daily, consolidated in monthly reporting, and a comprehensive review is completed no less than quarterly" <sup>1</sup> .
- **Currency Set and FX Risk Adjustment:** "Collateral securities are re-priced every night, from pricing sources utilized by FRM's Securities Valuation unit" <sup>1</sup> .
- **Calibration for Stressed Market Conditions:** "Haircuts that are regularly tested and take into account stressed market conditions" .

### Rating

**Rating: 2** Explanation: While the haircuts are reviewed quarterly and not weekly, all other criteria are met with haircuts applied for bonds with a horizon of 3 days, adjusted for FX risk, and calibrated for stressed market conditions.

<sup>1</sup> reference >

AI-generated content.

## Collateral - Wrong Way Risk Consideration

1. Are there any restrictions on wrong way risk between collateral posted and clearing member? If yes then rating is 3, if no rating is 1. if a complicated vague structure give it 2

### One Sentence Concise Answer

Yes, GSD imposes restrictions on wrong-way risk by limiting eligible collateral to cash and U.S. government and agency securities.

## Brief Explanation

- **Restrictions on Wrong Way Risk:** GSD mitigates wrong-way risk by restricting eligible Clearing Fund collateral to cash and high-quality U.S. government and agency securities .  
1  
2
- **Eligible Collateral:** The eligible collateral does not include securities issued by the clearing member or its affiliates, thereby avoiding wrong-way risk .  
1
- **Risk Management:** This approach ensures that the collateral is not correlated with the creditworthiness of the clearing members, thus mitigating the risk that the collateral value would decrease if the member's creditworthiness deteriorates .

## Citations

- **Restrictions on Wrong Way Risk:** "FICC currently mitigates wrong-way risk (defined as the risk that counterparty exposures will increase when the creditworthiness of a counterparty deteriorates) by limiting eligible Clearing Fund collateral to cash and U.S. government and agency securities" .  
2
- **Eligible Collateral:** "GSD and MBSD limit the non-cash securities currently accepted...to U.S. Government Treasury securities, U.S. Agency securities guaranteed by the U.S. Government, and certain U.S. Agency/Government Sponsored Enterprise pass-through securities" .  
1

## Rating - No Change

**Rating: 3** Explanation: GSD has clear and stringent restrictions to mitigate wrong-way risk by accepting only cash and high-quality government securities as collateral, ensuring robust risk management practices.

## Collateral - Rehypotecation

Can it rehypotecate collateral? if yes in what circumstances are they allowed to.

The rulebook section on Use of clearing fund might be helpful here.

Rating Criteria:

Yes - 1

No - 3 (no is good)

## One Sentence Concise Answer

Yes, GSD can rehypothecate collateral, but it is limited to using clearing fund securities for liquidity purposes only in the event of a default.

## Brief Explanation

- GSD is allowed to rehypothecate participant collateral, specifically non-cash assets.
- This rehypothecation is strictly for liquidity purposes and is only utilized in the event of a default.
- The rulebook section on the use of the clearing fund indicates that rehypothecation of clearing fund securities is permitted under these specific conditions .

1

## Relevant Citations

- "Rehypothecation of clearing fund securities used for liquidity purposes only in the event of a default" .

1

## Rating - No Change

### Rating: 2

- **Explanation:** GSD's ability to rehypothecate is limited and used only under specific circumstances (i.e., defaults), which provides a balanced approach to managing collateral.

## Collateral Concentration

1. Does CCP impose any limits by concentration,

Rating Criteria:

Not more 10% of a particular issuance, no more than 30% of an issuer, exceptions for sovereign is rating 3

2 if less stringent

1 if not prescriptive only loosely defined - 1

supplementary document GSD haircut footnote might be relevant here and will have \$s we are looking for.

## One Sentence Concise Answer

Yes, GSD imposes concentration limits on collateral, with specific additional charges for exceeding certain thresholds.

## Brief Explanation

- **Concentration Limits:** GSD applies concentration limits to the collateral it accepts, specifically targeting U.S. Government Treasury securities, U.S. Agency securities, and certain U.S. Agency/Government Sponsored Enterprise pass-through securities .

1

- **Guideline Details:** While specific percentages are not detailed for issuances or issuers, additional concentration charges are applied for pass-through securities posted in amounts above specified levels .

1

- **Haircuts and Charges:** The GSD haircut schedule includes a provision that any deposits of eligible securities in excess of 25% of a member's required fund deposit will be subject to a haircut that is twice the standard percentage, indicating structured concentration limits .

2

## Citations

- **Concentration Limits:** "GSD and MBS limit the non-cash securities currently accepted to collateralize a Member's open account Clearing Fund indebtedness to U.S. Government Treasury securities, U.S. Agency securities guaranteed by the U.S. Government, and certain U.S. Agency/Government Sponsored Enterprise pass-through securities" .

1

- **Haircuts and Charges:** "Any deposits of Eligible Clearing Fund Agency Securities or Eligible Clearing Fund Mortgage-Backed Securities in excess of 25% of a Member's Required Fund Deposit will be subject to a haircut that is twice the amount of the percentage noted in this schedule" .

2

## Rating - No Change

**Rating: 2** Explanation: GSD imposes concentration limits and additional charges for exceeding specific thresholds, but the guidelines are less stringent as they do not provide detailed percentages for issuance or issuer concentration, making the criteria less prescriptive.

## Default Fund - Methodology of default fund calculation:

1. Is there any segregation in the default fund calculation for sharing of financial resources baed on multiple markets, , FX, products or etc to mitigate correlated risk ? if yes please explain? any criteria's listed?

Rating Criteria

Not commingled and clear separating by market is yes

2. What are the number of scenarios used and how relevant are they,  
Rating is Yes, if large number of scenarios used

3. historical and probabilistic scenarios in default fund calculation?  
Rating Criteria : If Yes if they do

4. do they consider for cross-market events,  
Rating Criteria : If Yes if they do

5. Do the CCP have a stress test program in order to select scenarios as market / portfolio changes

## Rating Criteria

### Rating:

3 - stress test program is yes, it considers large number of scenarios, considers cross market events, not commingled,

2 - partial done (example 3 out 5 above)

1 - Doesn't respond on more than 2 of the terms

## Concise Answer:

The default fund is not commingled and is segregated by market (GSD and MBSD) to mitigate correlated risks, with each division's Clearing Fund operating as its default fund.

## Brief Explanation:

- **Cover One Standard:** The "Cover One" standard refers to maintaining sufficient financial resources to cover the default of the member (and its affiliates) that would cause the largest aggregate credit exposure in extreme but plausible market conditions [doc1, p. 51] .

1

- **Segregation in Default Fund Calculation:** The default fund is segregated by market, meaning GSD and MBSD each maintain separate Clearing Funds. This segregation is designed to mitigate correlated risks and ensure that financial resources are properly allocated to address potential defaults within each market [doc1, p. 51][doc2, p. 25][doc3, p. 70]. Each division's Clearing Fund serves as its default fund, ensuring that resources are not commingled [doc1, p. 51][doc3, p. 70].

## Citations:

- **Cover One Standard:** [doc1, p. 51] .

1

- **Segregation in Default Fund Calculation:** [doc1, p. 51][doc2, p. 25][doc3, p. 70].

## Rating:

### Rating: 3 - Rating Change

- **Explanation:** The segregation of default funds by market and maintaining a "Cover One" standard demonstrates a comprehensive approach to managing credit risk and ensuring financial stability. The methodology meets the criteria of not commingling funds, effectively segregating by market, and maintaining robust financial resources.

Saad Note: Commingled answer is Yes because its treating GSD and MBSD has separate funds. its not further breaking it down. a follow up prompt solves this, initial prompt won't be scalable if accommodate for this.

# Managing the default fund - rules and governance and calculations

## 1. How is the fund managed?

a) Rules of DF replenishment (explicit, triggers for non-compliance, required level of DF)  
clearly defined triggers and rules is a Yes

b) Frequency of recalculation (intraday daily/weekly/mth)  
Yes if intraday

c) Frequency of calls (weekly, mth+upon triggers) any criteria's listed?  
intraday is Yes

### Rating Criteria

if a,b,c are all covered well then 3

if partially then 2

1 if vague and only one covered

## Concise Answer

The default fund for GSD is managed with explicit rules for replenishment, intraday recalculations, and intraday calls for additional funds, fulfilling all criteria for a rating of 3.

## Brief Explanation

### • Rules of Default Fund Replenishment:

- The FICC has established explicit rules for default fund replenishment, including triggers for non-compliance and required levels, ensuring a robust governance structure .

1

### • Frequency of Recalculation:

- The default fund contributions are recalculated intraday, which is a requirement for maintaining sufficient collateral and liquidity .

1

### • Frequency of Calls:

- Calls for additional funds can be made intraday, and members are required to make their deposits within specified timeframes, ensuring timely and adequate coverage of risks .

## Citations

- "The Clearing Fund formula, discussed more fully under Principle 6 (Margin), takes account of a variety of risk factors through the application of a number of components" .

1

- "GSD calculates a Clearing Fund requirement for each GSD Member twice a day... FICC may call for additional Clearing Fund on an intraday basis, as needed" .

1

- "Any shortfalls in a Member's required deposit must be paid each business day by 9:30 a.m. and 2:45 p.m. with respect to GSD" .

1

## Rating - Changed

### Rating: 3

**Explanation:** The rules for default fund replenishment, the frequency of recalculations, and the frequency of calls are all clearly defined and covered in detail, meeting all the criteria for the highest rating.

## Managing the default fund - collateral reinvestment consideration

Is the collateral reinvested? les Yes Is there a mechanism in place of recovery and distribution of loss and profit between members and ccp? any criteria's listed?  
any specific criteria for reinvestment please list them.

Rating Criteria

3 if No

2. if yes but clear mechanism of recovery outlined, state the mechanism, and distribution of loss and profit in that case between CCP and members

1 Yes and very vague terms

### Concise Answer

Yes, the collateral is reinvested, and there is a clear mechanism for recovery and distribution of losses between members and the CCP.

### Brief Explanation

- **Collateral Reinvestment:**

- The FICC's Treasury Operations staff is responsible for the investment of Clearing Fund cash according to the DTCC's Clearing Agency Investment Policy, which governs the custody and overnight investment of Clearing Fund cash .

1

- **Mechanism of Recovery and Distribution of Loss:**

- FICC has a Recovery and Wind-down Plan to ensure the continuity of critical services during financial distress, including scenarios that may prevent it from providing its services .

2



- In the event of a member default, the Clearing Fund and certain FICC resources are used to cover potential losses .

2

- Losses are mutualized among the non-defaulting members through the Clearing Fund, with additional charges or increased fund contributions assessed as necessary .

3

- **Specific Criteria for Reinvestment:**

- The reinvestment of collateral follows the DTCC's Clearing Agency Investment Policy, ensuring the safe and prudent investment of funds .

1

## Citations

- "Treasury Operations is also responsible for the investment of Clearing Fund cash. DTCC's Clearing Agency Investment Policy governs FICC's investments of cash, including the custody and overnight investment of Clearing Fund cash" .

1

- "FICC maintains financial resources—the Clearing Fund (which in the aggregate serves as the default fund for loss mutualization purposes) and certain of its own resources—designed to enable it to cover potential losses resulting from the failure of the Member or Member family to which it has the largest credit exposure" .

2

- "FICC may increase a GSD Member's Required Fund Deposit by assessing additional charges aimed at mitigating perceived risks in excess of those systemically addressed" .

3

## Rating - No Change

### Rating: 2

**Explanation:** The collateral is reinvested, but there is a clear and detailed mechanism for recovery and distribution of losses, thus meeting the criteria for a rating of 2.