September 1 2026

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F St NE
Washington, DC 20549

Re: Notice of Filing of Proposed Rule Change, as Modified by Partial Amendment No. 1, to Establish a Guaranty Fund at the Government Securities Division (Release No. 34-106053; File No. SR-FICC-2026-008) and Notice of Filing and Extension of the Review Period of an Advance Notice, as Modified by Partial Amendment No. 1, to Establish a Guaranty Fund at the Government Securities Division (Release No. 34-106054; File No. SR-FICC-2026-802)

Dear Ms. Countryman:

The International Swaps and Derivatives Association, Inc. (**"ISDA"**)[1] and the Futures Industry Association (**"FIA"**)[2] (together, the **"Associations"**) welcome the opportunity to comment on the Notice of Filing of Proposed Rule Change, as Modified by Partial Amendment No. 1, to Establish a Guaranty Fund at the Government Securities Division (**"Proposal"**) published by the U.S. Securities and Exchange Commission (**"SEC"** or **"Commission"**).

The Associations welcome the Proposal. ISDA has worked with the Fixed Income Clearing Corporation (**"FICC"**) on the capital requirements of the Government Securities Division's (**"GSD"**) members. The introduction of a dedicated guaranty fund (the "GF") will also bring GSD in line with most other central counterparties ("CCPs") globally and

[1] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 79 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org.

[2] FIA is the leading trade organization for the futures, options, and cleared swaps markets worldwide. FIA's membership includes clearing firms, exchanges, clearinghouses, and trading firms from more than 25 countries as well as technology vendors, lawyers, and other professionals serving the industry. FIA's mission is to support open, transparent, and competitive markets, to protect and enhance the integrity of the financial system, and to promote high standards of professional conduct. For more information, visit www.fia.org.

will allow the initial margin posted by GSD members, that is, their Clearing Fund ("**CF**") contributions, to be held in a bankruptcy-remote manner, thereby reducing members' counterparty exposure to GSD. We urge the Commission to approve the changes promptly and FICC to implement them without delay, at the latest, before the clearing mandate comes into effect.

The Associations generally agree with the Proposal and welcome the introduction of a dedicated GF. We however have concerns that the GF can also be used for non-default losses (**"NDL"**), in the Proposal called "Declared Non-Default Loss Event". This is not in line with the practices of other CCPs globally. In fact, a recent consultation by CPMI-IOSCO proposes to require CCPs to calculate and set aside liquid net assets funded by equity (**"LNAFE"**) to cover such events. We urge FICC to follow global best practice and not to mutualize losses arising from events over which FICC members have neither visibility nor influence.

We would also urge FICC not to shorten the Event Period from ten to five business days, and to adopt a true "cooling-off period" that extends automatically after each follow-up default, so that members' cumulative exposure remains contained during a rolling crisis.

Other than these recommendations, the Associations ask the Commission to approve the Proposal to establish a GF prior to the UST clearing mandate go-live.

We have provided detailed comments to the proposed changes below.

I. Cover-2 Guaranty Fund

Most CCPs globally and in the US have a dedicated GF, separate from initial margin.

A dedicated GF, held separately from initial margin, carries several advantages for members and for the resilience of the market as a whole.

First, it makes clear which resources cover which risks. Under the current GSD structure, a single Clearing Fund serves simultaneously as defaulter-pays margin and as the mutualized resource available to absorb losses that exceed a defaulting member's own contribution.

Second, it restores the distinction between defaulter-pays and survivor-pays resources that underpins the standard CCP default waterfall. Initial margin is calibrated to a member's own risk and should be returned to that member; mutualized resources are calibrated to the CCP's stress exposure and are, by design, at risk. Collapsing the two blunts the incentive properties of both.

Third, and consequentially, it allows initial margin to be posted in a bankruptcy-remote manner and to be recognized as such under the Basel capital framework, as discussed in section II below.

Fourth, it improves the transparency and predictability of members' exposures. A member's contribution to a dedicated fund, and its assessment obligation measured against that contribution, is a figure that can be sized, monitored and reported. That is materially easier to risk-manage than an open-ended exposure embedded within a margin obligation.

Fifth, it aligns GSD with the structure used by systemically important CCPs in the United States and internationally, which supports comparability across the clearing landscape and reduces the operational and analytical burden on members that clear at multiple CCPs.

We welcome the sizing of the Guaranty Fund to a Cover-2 standard, consistent with other systemically important CCPs clearing U.S. Treasury activity. To support members' own risk management, we would also welcome greater transparency over the historical and hypothetical stress scenarios used to size the fund.

II. Bankruptcy-remote Clearing Fund and capital requirements

The proposed treatment of the Clearing Fund offers members two distinct benefits. The first is capital: where the Clearing Fund is structured so as to meet the conditions of the Basel framework, members' exposures in respect of their initial margin requirements attract a materially lower capital charge. The second is credit: where the Clearing Fund is bankruptcy-remote from GSD, members' exposure to GSD as a counterparty is correspondingly reduced. Even where the capital saving is modest, the reduction in counterparty exposure is valuable in its own right, and frees credit lines that members can deploy elsewhere.

Members have specifically asked to understand the c-factor and capital requirements that would apply following the implementation of the Proposal. We would therefore ask FICC to refresh and share its previous projections of the hypothetical capital benefit and the resulting c-factor once the GF has been implemented, so that members can quantify the expected capital impact.

III. Capped assessments

We welcome the introduction of a cap on each Netting Member's loss allocation during an Event Period equal to 200% of its Guaranty Fund Requirement. Limiting members' liabilities is crucial and FICC has to date been an outlier in not capping assessments.

We are concerned, however, that the Proposal shortens the Event Period from the current ten business days to five business days. With the introduction of the 200% assessment cap, the length of the Event period now matters in a way it did not before: because the 200% assessment cap resets with each new Event Period, a shorter period increases the likelihood that members are exposed to the cap more than once over a given interval of market stress. For example, if a second Defaulting Member Event or Declared Non-Default Loss Event occurs five business days after an initial event, it would fall into a fresh Event Period carrying a new 200% cap and exposing members to cumulative assessments of up to 400% of their GF Requirement across two consecutive Event Periods, where the same events arising within a single ten-business-day period would be subject to a single 200% cap. In a period of sustained stress, precisely when successive defaults are most likely, the shortened period therefore materially increases members' potential cumulative liability.

Relatedly, while the proposal mentions the term "cooling-off-period", we note that the Event Period is not a "cooling-off-period" as understood elsewhere, as the period does not extend with each new default. A genuine cooling-off period, which extends automatically upon each follow-up default so that all related events remain subject to a single cap, is the established mechanism for containing members' cumulative exposure during a rolling crisis.

We therefore urge FICC to (i) retain, at a minimum, the current ten (10) business-day period rather than shortening it to five; and (ii) introduce an automatic extension of the Event Period upon each subsequent default, so as to provide a true cooling-off period in line with global best practice. Either measure would help contain members' cumulative liability; together, they would materially strengthen the framework.

FICC should consider linking a member's loss allocation withdrawal notice to the event of default declaration and not the loss allocation notice. For example, members that provide their loss allocation withdrawal notice at any time within the Event Period would be exempt from loss allocations in subsequent Event Periods. This proposal along with a longer Event Period would help provide increased transparency.

IV. Non-default losses

The Proposal foresees that the GF can also be used for NDLs. Under proposed Rule 4C, a Declared Non-Default Loss Event is grouped into an Event Period alongside member defaults and, after application of the Corporate Contribution , is allocated to Netting Members up to their Loss Allocation Cap. CCIT Members and Registered Investment Company Netting Members are excluded from loss allocation altogether. The burden of a non-default loss therefore falls solely on Netting Members. We note that the Corporate Contribution is set at only 50% of FICC's General Business Risk Capital Requirement and is reset quarterly. We would welcome disclosure of this amount in dollar terms and encourage FICC to commit a more meaningful layer of dedicated own resources ahead of any allocation to members, particularly in respect of non-default losses.

In the Associations' previous papers, such as the whitepaper on CCP non-default losses or the response to the CPMI/IOSCO paper "A discussion paper on central counterparty practices to address non-default losses" and the CPMI-IOSCO consultative report FMIs' management of general business risks and general business losses: Further guidance to the PFMI (the "**Consultative Report**"), we emphasized NDLs[3] should typically not be allocated to participants. Such losses stem from risks under the control and governance of the CCP, including operational and cyber incidents, legal and regulatory actions, investment risks, as well as other routine management decisions. Participants generally have limited transparency regarding how CCPs manage these risks and are unable to effectively influence the management of NDL, including their likelihood or potential impact. Assigning NDL to participants would create misaligned incentives and diminish the accountability of CCP owners and management for maintaining strong and dedicated internal controls.

We therefore ask FICC to not allocate NDL to clearing members, but to follow the Consultative Report which proposes to require CCPs to calculate and set aside liquid net assets funded by equity to cover such events. We appreciate that the Depository Trust & Clearing Corporation ("**DTCC**") is member owned. But even in such a setting, incentives for CCP management are better aligned if CCP management cannot merely allocate NDL.

We urge FICC to follow global best practice and not mutualize NDL.

[3] In the consultative report referred to as general business losses (GBLs)

V. Impact on collateral-in-lieu product

A Sponsoring Member ("**SP**") clearing collateral in lieu ("**CIL**") transactions for a CIL lender client is currently able to conclude that it has no exposures to the client for which it would have to calculate RWA. That conclusion rests, among other things, on the following assumption. If FICC has ceased to act for the client (but neither the SP nor FICC is defaulting) and FICC elects to terminate the client's CIL trades but the client's Purchased GC Repo Securities are insufficient to pay any liquidation amount due to FICC, then any remaining amount would be satisfied, first, by application of FICC's Corporate Contribution and, second, by ratable allocation to the CFs of all non-defaulting clearing members, including the client's SP. If the Proposal results in the SP having to post CF that would look like initial margin securing the payment of such an amount (meaning that the CF deposit, or after the change, the GF, would be the first resource used to cover the deficiency rather than the deficiency being applied down the default waterfall), this could undermine the conclusion that the member has no exposure to the client, and in turn affect the economics and attractiveness of CIL transactions. We ask FICC to explain precisely how the Proposal will affect CIL transactions.

It would also be helpful for FICC to supply additional information about the treatment of CIL transactions as compared with Sponsored GC transactions under the proposed GF provisions so that clearing members can better quantify the impact of the Proposal on both products.

VI. GF allocation

The proposed allocation of the GF to Netting Members is driven solely by each member's stress testing results. (such as their share of the largest Cover 2 stress loss). We would not wish this to delay implementation of a dedicated GF, but we would ask FICC to periodically review, post-implementation if additional appropriate risk factors that would support risk-based distribution and stability of GF allocation would need to be incorporated.

For the allocation as planned in the Proposal, it is unclear whether the member pro rata share is calculated under the same two Cover 2 scenarios that drive the Guaranty Fund overall, or under the two biggest scenarios per member.

We also note that Registered Investment Company Netting Members do not pay into the GF, which contrasts with the sponsored clearing model in RepoClear where the sponsoring member pays. The risk these members bring would effectively be allocated across all members, with no link to who brought them to the CCP. We would welcome further information on the scale of the risk contributed by these members and how FICC proposes to address the resulting cross-subsidisation among the wider membership.

VII. Stress Test Deficiency Charge

We support FICC's proposal to implement a Stress Test Deficiency Charge as an effective, risk-sensitive tool. By requiring a member with an outsized stress test deficiency to post additional resources, the charge is designed to ensure that the member funds more of the risk it creates rather than potentially mutualizing that risk across the membership through the GF.

The Proposal sets the initial threshold at 30%. We would ask FICC to further evaluate a lower threshold, and share further analysis and provide illustrative examples that the threshold is appropriately calibrated to limit the mutualization of outsized risk exposures, and to communicate the calibration and its justification to clearing members. We would also encourage FICC to provide clearing members with sufficient transparency into its stress testing methodology, results and the interplay with the Stress Test Deficiency Charge to enable members to understand and reasonably anticipate their Stress Test Deficiencies. Finally, we would ask FICC to confirm that the Stress Test Deficiency Charge would form part of the Clearing Fund and receive the same bankruptcy-remote treatment as other Clearing Fund deposits.

VIII. Backtesting and impact study

The Proposal summarizes the results of a Guaranty Fund Impact Study, a Stress Test Deficiency Charge Impact Study and a Backtesting Study covering January to December 2025, including that the average Guaranty Fund size would have been approximately $6 billion (ranging from approximately $5.25 billion to $6.37 billion), that the average monthly allocation per Netting Member would have been approximately $42.6 million with a maximum of approximately $898 million, and that the top ten Netting Members would have been allocated approximately 59% of the fund. We welcome this disclosure.

The headline results alone, however, do not allow members to understand the drivers of their own requirements. We would therefore welcome it if FICC shared with members the underlying methodology, scenario set and member-level outputs of these studies, including the split between clearing fund and GF, and committed to repeating and sharing such analysis periodically once the Guaranty Fund is live.

IX. Other questions

We note that, following each GF resizing, members are expected to fund any shortfall on the same day FICC notifies them of the revised requirements. Because resizing is a regular process, we question whether same-day payment is necessary and ask whether FICC could allow members one business day to meet any increased GF contribution.

The Proposal requires that all deposits to the GF be made in cash. While some CCPs operate a cash only default fund, many others global CCPs permit members to meet their default fund contribution through a mix of cash and non-cash collateral (for example high-quality government securities, subject to appropriate haircuts). Members have raised concerns that a cash-only requirement imposes a material, and potentially procyclical, liquidity burden, particularly at a time of stress when the GF is most likely to be resized and cash is most scarce. We would therefore urge FICC to consider permitting a portion of the GF to be met in non-cash collateral, consistent with the practice of other global CCPs.

In addition, FICC plans to have the authority to exchange a Netting Member's Clearing Fund deposit in the form of cash for U.S. Treasury securities to provide liquidity to FICC to meet its settlement obligations. We would seek greater clarity regarding the operational, legal, and economic implications of the proposed asset-for-asset exchange mechanism. While we support FICC's objective of preserving bankruptcy-remote treatment of margin assets by introducing a dedicated GF, additional clarification would be helpful regarding:

- Approach FICC takes to ensure bankruptcy remoteness[4] (and whether this exchange of assets will be part of the proposed bankruptcy remoteness opinion) and compensation if this exchange creates losses.
- Whether FICC would consider applying haircuts to all these replacements.

[4] We welcome that FICC will provide a bankruptcy remoteness opinion from outside counsel which should opines that the assets in the GF would be considered bankruptcy remote and available just for U.S. Treasury clearing operations, consistent with the views expressed by FIA in the advisory paper entitled "Arrangements Necessary to Support a Positive Bankruptcy Remoteness Conclusion Under the Cleared Transaction Rules of US Basel III With Respect to Collateral Posted by a Clearing Member to a Central Counterparty."

- How Treasury securities will be selected and allocated in exchange for members' cash Clearing Fund deposits.
- Whether, and under what circumstances, FICC would return cash once its liquidity needs have subsided.
- The allocation of market risk if substituted securities decline in value.
- Implications for members subject to investment, risk management, accounting, or operational constraints related to holding specific securities.
- Whether a repo-style structure would better achieve FICC's liquidity objectives while providing greater certainty regarding the return of cash collateral.

X. Conclusion

We appreciate the opportunity to submit our comments on the Proposal. The Associations support the Proposal and encourage the Commission to promptly approve it, and FICC to implement the Proposal without delay.

We would, however, urge FICC to hold resources sufficient to absorb non-default losses without allocating them to members, to retain the current ten-business-day Event Period rather than shortening it to five days, and to adopt a true cooling-off period that extends automatically on each subsequent default.

Please do not hesitate to contact Ulrich Karl (ukarl@isda.org), or Doanh Le Ngoc (DLeNgoc@fia.org) should you have any questions or need additional information.

Sincerely,

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