

*Required fields are shown with yellow backgrounds and asterisks.*

Page 1 of * <input type="text" value="40"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - <input type="text" value="2016"/> - * <input type="text" value="005"/>	Amendment No. (req. for Amendments *) <input type="text"/>	
Filing by Fixed Income Clearing Corporation Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934					
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934		
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>	Section 3C(b)(2) * <input type="checkbox"/>			
Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>				
<b>Description</b>					
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).					
<input type="text" value="Proposed rule change to adopt the Clearing Agency Investment Policy."/>					
<b>Contact Information</b>					
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.					
First Name *	<input type="text" value="Rosa"/>	Last Name *	<input type="text" value="Chang"/>		
Title *	<input type="text" value="Executive Director and Associate General Counsel"/>				
E-mail *	<input type="text" value="rchang1@dtcc.com"/>				
Telephone *	<input type="text" value="(212) 855-4985"/>	Fax	<input type="text"/>		
<b>Signature</b>					
Pursuant to the requirements of the Securities Exchange Act of 1934,					
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.					
(Title *)					
Date	<input type="text" value="08/25/2016"/>	<input type="text" value="Managing Director and Deputy General Counsel"/>			
By	<input type="text" value="Nikki M. Poulos"/>	<input type="text"/>			
(Name *)					
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.					
<input type="button" value="Persona Not Validated - 1459960765550."/>					

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

## **1. Text of Proposed Rule Change**

(a) The proposed rule change would adopt the Clearing Agency Investment Policy, which governs the investment of funds of Fixed Income Clearing Corporation (“FICC”) and its affiliates, The Depository Trust Company (“DTC”) and National Securities Clearing Corporation (“NSCC”, and together with FICC and DTC, the “Clearing Agencies”), as described below. This proposed rule change does not require any changes to the Clearing Rules of the Mortgage-Backed Securities Division of FICC (“MBSD Rules”), the Rulebook of the Government Securities Division of FICC (“GSD Rules”), the DTC Rules, By-laws and Organizational Certificate (“DTC Rules”) or the Rules & Procedures of NSCC (“NSCC Rules”).<sup>1</sup>

(b) Not applicable.

(c) Not applicable.

## **2. Procedures of the Clearing Agency**

(a) The proposed rule change was approved by the Board of Directors of each of FICC, DTC and NSCC, respectively, at a meeting duly called and held on August 17, 2016.

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

### **(a) Purpose**

The Clearing Agencies have adopted the Clearing Agency Investment Policy to govern the management, custody and investment of cash deposited to the respective FICC and NSCC Clearing Funds, and the DTC Participants Fund,<sup>2</sup> the proprietary liquid net assets (cash and cash equivalents) of the Clearing Agencies, and other funds held by the Clearing Agencies pursuant to their respective rules, as described below. Investment of these funds was previously governed by the investment policy of the parent company of the Clearing Agencies, The Depository Trust & Clearing Corporation (“DTCC”). The Clearing Agency Investment Policy would include a glossary of key terms, the roles and responsibilities of DTCC staff in administering the Clearing Agency Investment Policy,

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<sup>1</sup> Capitalized terms not defined herein are defined in the MBSD Rules, GSD Rules, DTC Rules or NSCC Rules, as applicable, available at <http://dtcc.com/legal/rules-and-procedures>.

<sup>2</sup> The FICC and NSCC Clearing Funds, and the DTC Participants Fund are described further in the rules of each of the Clearing Agencies. See Rule 4 (Clearing Fund and Loss Allocation) of the GSD Rules, Rule 4 (Clearing Fund and Loss Allocation) of the MBSD Rules, Rule 4 (Participants Fund and Participants Investment) of the DTC Rules and Rule 4 (Clearing Fund) of the NSCC Rules. Supra, note 1.

guiding principles for investments, sources of investable funds, allowable investments of those funds, limitations on such investments, authority required for those investments and authority required to exceed established investment limits, as described below.

*Governance and Responsibilities.*

The Clearing Agency Investment Policy would be co-owned by DTCC's Treasury group ("Treasury")<sup>3</sup> and the Counterparty Credit Risk team ("CCR") within DTCC's Financial Risk Management group.<sup>4</sup> Additionally, the Clearing Agency Investment Policy would be reviewed annually and material changes would be required to be approved by the Board of Directors of each of FICC, DTC and NSCC (the "Boards"), or such other committee to which such authority may be delegated by the Boards from time to time. Future changes to the Clearing Agency Investment Policy would be subject to a subsequent rule filing and approval by the Commission.

Treasury would be responsible for identifying potential counterparties to investment transactions, establishing and managing investment relationships with approved investment counterparties, and making and monitoring all investment transactions with respect to the Clearing Agencies. Additionally, Treasury would be responsible for managing, monitoring and internal reporting of investment capacity utilization relative to established aggregate investment limits.<sup>5</sup>

CCR would be responsible for conducting a credit review of any potential counterparty, updating those reviews on a quarterly basis and establishing the investment limit for each counterparty approved by CCR. In conducting a credit review, CCR would evaluate the creditworthiness of counterparties based on a number of factors, including the credit ratings provided by external credit rating agencies. Counterparties generally would be required to meet a minimum external credit rating set forth in the Clearing Agency Investment Policy; however, CCR would be permitted to grant an exception to the minimum external credit rating requirement for a particular counterparty where CCR concludes that approving exposures to that counterparty would serve a valid business or investment purpose of the Clearing Agencies and the risk of loss or default to the

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<sup>3</sup> Treasury is a part of the DTCC Finance Department and is responsible for the safeguarding, investment and disbursement of funds on behalf of the Clearing Agencies and in accordance with the principles outlined in the Clearing Agency Investment Policy.

<sup>4</sup> Among other responsibilities, DTCC's Financial Risk Management group (formerly known as DTCC's "Enterprise Risk Management" group) is generally responsible for the systems and processes designed to identify and manage credit, market and liquidity risks to the Clearing Agencies.

<sup>5</sup> All investments are subject to limits set by type of allowable investment and by counterparty. Investment limits are set at an aggregate DTCC-wide level and would apply to investments made by any of DTCC and each of its subsidiaries, including each of the Clearing Agencies.

Clearing Agencies is assessed as minimal. CCR could grant an exception on the foregoing basis based on an assessment of the counterparty's capitalization levels, liquidity resources, earnings trends and any other relevant information, and any such exception would be approved by a Managing Director in DTCC's Financial Risk Management group in accordance with the Clearing Agency Investment Policy.

*Clearing Agency Investment Policy Overview.*

The Clearing Agency Investment Policy would identify permitted investments and the parameters of, and limitations on, each type of investment. In general, assets would be required to be held by regulated and creditworthy financial institution counterparties and invested in specified types of financial instruments. Permitted financial investments may include, for example, deposits with banks, including the Federal Reserve Bank of New York ("FRBNY"), collateralized reverse-repurchase agreements, direct obligations of the U.S. government, money-market mutual funds and high-grade corporate debt.<sup>6</sup> Additionally, the Clearing Agencies would, pursuant to the Clearing Agency Investment Policy, be permitted to use general corporate funds, and only such funds, to enter into hedge transactions to manage certain corporate exposures, such as interest rate or foreign currency risk; hedge transactions would not be permitted to be engaged in for speculative purposes.

The Clearing Agency Investment Policy would set forth guiding principles for the investment of funds, which include adherence to a prudent and conservative investment philosophy that places the highest priority on maximizing liquidity and avoiding risk. The guiding principles would also mandate the segregation and separation of deposits to the respective FICC and NSCC Clearing Funds and the DTC Participants Fund, so that such amounts are not commingled with each other or with other funds held by the Clearing Agencies. The guiding principles would also address the process for evaluating the credit ratings of counterparties and setting investment limits, which would be evaluated, reviewed and approved quarterly by CCR. Finally, the guiding principles would make clear that risk of investment loss is addressed by the rules of each of the Clearing Agencies.

Funds invested pursuant to the Clearing Agency Investment Policy would include (i) cash deposits to the respective FICC and NSCC Clearing Funds and the DTC Participants Fund, (ii) general corporate funds of each of the Clearing Agencies, (iii) NSCC's prefunded default liquidity funds raised from the private placement of unsecured debt,<sup>7</sup> (iv) amounts deposited with NSCC by its participants to meet Rule 15c3-3, promulgated under the Securities Exchange Act of 1934, as amended ("Act") as part of

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<sup>6</sup> Only general corporate funds of a Clearing Agency would be permitted to be invested in high-grade corporate debt.

<sup>7</sup> See Securities Exchange Act Release No. 75730 (August 19, 2015), 80 FR 51638 (August 25, 2015) (File No. SR-NSCC-2015-802).

its fully-paid-for service,<sup>8</sup> (v) corporate action payments or principal and interest payments on Securities credited to the Accounts of DTC Participants that are received by DTC too late in the day or missing information needed for same-day allocation,<sup>9</sup> (vi) funds collected from DTC Participants through net funds settlement and held by DTC to cover 130% of the market value of “short positions,”<sup>10</sup> and (vii) cash debited from Netting Members of FICC’s Government Securities Division to satisfy such Members’ mark-to-market deficits on forward settling transactions.<sup>11</sup>

Investments in collateralized reverse repurchase agreements would be secured by debt obligations of the U.S. Government or Agencies guaranteed by the U.S. Government, or by mortgage pass-through obligations issued by the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. Collateral posted by a counterparty to a reverse repurchase agreement (whether securities or a combination of securities and cash) would be required to have a market value equal to 102% or greater of the cash invested. Investments would also be permitted in money market mutual funds that have a credit rating from one or more recognized rating agencies. All permitted investments would be short term and readily accessible for liquidity, should the need arise, minimizing market risk.

Finally, the Clearing Agency Investment Policy would identify those individuals who may authorize certain investments, the establishment of investment relationships with approved counterparties, the execution of investment transactions with certain maturities, and requests to exceed investment limits for any counterparty or any investment type. Requests to exceed investment limits would be capped at a certain percent of the respective limits, as set forth in the Clearing Agency Investment Policy.

(b) Statutory Basis

Section 17A(b)(3)(F) of the Act requires, among other things, that the Clearing Agencies’ respective rules be designed to promote the prompt and accurate clearance and settlement of securities transactions, to assure the safeguarding of securities and funds

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<sup>8</sup> 17 CFR 240.15c3-3; see supra, note 1.

<sup>9</sup> See supra, note 1.

<sup>10</sup> In this context, “short positions” refer to Securities that have been deposited by, and credited to the Account of, a DTC Participant, pending re-registration into the name of Cede & Co., the DTC nominee, which are nevertheless permitted to be delivered to another DTC Participant; this 130% charge is held by DTC until the Securities are re-registered. See supra, note 1.

<sup>11</sup> See supra, note 1.

which are in the custody or control of the Clearing Agency or for which it is responsible, and, in general, to protect investors and the public interest.<sup>12</sup>

The investment guidelines and governance procedures set forth in the Clearing Agency Investment Policy are designed to safeguard assets and to facilitate access to these assets, as needed, without delay, because certain assets that would be invested pursuant to the Clearing Agency Investment Policy constitute key liquidity resources of the Clearing Agencies. As such, these assets should be readily available to facilitate end-of-day settlement, including in the event of a member default, and to cover potential losses due to such an event. Therefore, the protections that would be afforded these assets under the Clearing Agency Investment Policy, which include, for example, following a prudent and conservative investment philosophy that places highest priority on maximizing liquidity and risk avoidance, promote the prompt and accurate clearance and settlement of securities transactions and assure the safeguarding of securities and funds related thereto, all in furtherance of protecting investors and the public interest, in compliance with Section 17A(b)(3)(F) of the Act.<sup>13</sup>

Rule 17Ad-22(d)(3), promulgated under the Act, requires the Clearing Agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to hold assets in a manner that minimizes risk of loss or of delay in its access to them and to invest assets in instruments with minimal credit, market and liquidity risks.<sup>14</sup> As stated above, the Clearing Agency Investment Policy follows a prudent and conservative investment philosophy, placing the highest priority on maximizing liquidity and avoiding risk of loss, by requiring the segregation of funds of each Clearing Agency and of types of funds of each Clearing Agency, using external credit ratings in the evaluation of counterparties, and establishing investment limits by counterparty as well as investment type. Further, by requiring that each Clearing Agency invest its assets in instruments with minimal credit, market and liquidity risks, the Clearing Agency Investment Policy complies with the requirements of Rule 17Ad-22(d)(3), promulgated under the Act.<sup>15</sup>

#### **4. Clearing Agency's Statement on Burden on Competition**

Each of the Clearing Agencies believes that the Clearing Agency Investment Policy would not have any impact, or impose any burden, on competition because the proposed rule change would (1) apply equally to the Clearing Fund or Participants Fund deposits, as applicable, of each member of the respective Clearing Agencies and (2) establish a uniform policy at the Clearing Agencies.

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<sup>12</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>13</sup> Id.

<sup>14</sup> 17 CFR 240.17Ad-22(d)(3).

<sup>15</sup> Id.

**5. Clearing Agency’s Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

The Clearing Agencies have not solicited or received any written comments relating to this proposal. The Clearing Agencies will notify the Commission of any written comments received by the Clearing Agencies.

**6. Extension of Time Period for Commission Action**

The Clearing Agencies do not consent to an extension of the time period specified in Section 19(b)(2) of the Exchange Act for Commission action.

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

While the proposed rule change is not based on the rules of another self-regulatory organization or of the Commission, the Clearing Agency Investment Policy is applicable to each of the Clearing Agencies, and each of the Clearing Agencies has filed similar proposed rule changes concurrently with this filing.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Exchange Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**11. Exhibits**

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 – Not applicable.



Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Clearing Agency Investment Policy. **Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 5 pursuant to 17 CFR 240.24b-2 being requested.**

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-FICC-2016-005)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to Clearing Agency Investment Policy

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4,<sup>2</sup> notice is hereby given that on August 25, 2016, 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 would adopt the Clearing Agency Investment Policy, which governs the investment of funds of FICC and its affiliates, The Depository Trust Company (“DTC”) and National Securities Clearing Corporation (“NSCC”, and together with FICC and DTC, the “Clearing Agencies”), as described below. This proposed rule change does not require any changes to the Clearing Rules of the Mortgage-Backed Securities Division of FICC (“MBSD Rules”), the Rulebook of the Government

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

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

Securities Division of FICC (“GSD Rules”), the DTC Rules, By-laws and Organizational Certificate (“DTC Rules”) or the Rules & Procedures of NSCC (“NSCC Rules”).<sup>3</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 any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Clearing Agencies have adopted the Clearing Agency Investment Policy to govern the management, custody, and investment of cash deposited to the respective FICC and NSCC Clearing Funds, and the DTC Participants Fund,<sup>4</sup> the proprietary liquid net assets (cash and cash equivalents) of the Clearing Agencies, and other funds held by the Clearing Agencies pursuant to their respective rules, as described below. Investment of these funds was previously governed by the investment policy of the parent company

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<sup>3</sup> Capitalized terms not defined herein are defined in the MBSD Rules, GSD Rules, DTC Rules or NSCC Rules, as applicable, available at <http://dtcc.com/legal/rules-and-procedures>.

<sup>4</sup> The FICC and NSCC Clearing Funds, and the DTC Participants Fund are described further in the rules of each of the Clearing Agencies. See Rule 4 (Clearing Fund and Loss Allocation) of the GSD Rules, Rule 4 (Clearing Fund and Loss Allocation) of the MBSD Rules, Rule 4 (Participants Fund and Participants Investment) of the DTC Rules and Rule 4 (Clearing Fund) of the NSCC Rules. Supra, note 3.

of the Clearing Agencies, The Depository Trust & Clearing Corporation (“DTCC”). The Clearing Agency Investment Policy would include a glossary of key terms, the roles and responsibilities of DTCC staff in administering the Clearing Agency Investment Policy, guiding principles for investments, sources of investable funds, allowable investments of those funds, limitations on such investments, authority required for those investments and authority required to exceed established investment limits, as described below.

*Governance and Responsibilities.*

The Clearing Agency Investment Policy would be co-owned by DTCC’s Treasury group (“Treasury”)<sup>5</sup> and the Counterparty Credit Risk team (“CCR”) within DTCC’s Financial Risk Management group.<sup>6</sup> Additionally, the Clearing Agency Investment Policy would be reviewed annually and material changes would be required to be approved by the Board of Directors of each of FICC, DTC and NSCC (the “Boards”), or such other committee to which such authority may be delegated by the Boards from time to time. Future changes to the Clearing Agency Investment Policy would be subject to a subsequent rule filing and approval by the Commission.

Treasury would be responsible for identifying potential counterparties to investment transactions, establishing and managing investment relationships with approved investment counterparties, and making and monitoring all investment

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<sup>5</sup> Treasury is a part of the DTCC Finance Department and is responsible for the safeguarding, investment and disbursement of funds on behalf of the Clearing Agencies and in accordance with the principles outlined in the Clearing Agency Investment Policy.

<sup>6</sup> Among other responsibilities, DTCC’s Financial Risk Management group (formerly known as DTCC’s “Enterprise Risk Management” group) is generally responsible for the systems and processes designed to identify and manage credit, market and liquidity risks to the Clearing Agencies.

transactions with respect to the Clearing Agencies. Additionally, Treasury would be responsible for managing, monitoring and internal reporting of investment capacity utilization relative to established aggregate investment limits.<sup>7</sup>

CCR would be responsible for conducting a credit review of any potential counterparty, updating those reviews on a quarterly basis and establishing the investment limit for each counterparty approved by CCR. In conducting a credit review, CCR would evaluate the creditworthiness of counterparties based on a number of factors, including the credit ratings provided by external credit rating agencies. Counterparties generally would be required to meet a minimum external credit rating set forth in the Clearing Agency Investment Policy; however, CCR would be permitted to grant an exception to the minimum external credit rating requirement for a particular counterparty where CCR concludes that approving exposures to that counterparty would serve a valid business or investment purposes of the Clearing Agencies and the risk of loss or default to the Clearing Agencies is assessed as minimal. CCR could grant an exception on the foregoing basis based on an assessment of the counterparty's capitalization levels, liquidity resources, earnings trends and any other relevant information, and any such exception would be approved by a Managing Director in DTCC's Financial Risk Management group in accordance with the Clearing Fund Investment Policy.

*Clearing Agency Investment Policy Overview.*

The Clearing Agency Investment Policy would identify permitted investments and the parameters of, and limitations on, each type of investment. In general, assets

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<sup>7</sup> All investments are subject to limits set by type of allowable investment and by counterparty. Investment limits are set at an aggregate DTCC-wide level and would apply to investments made by any of DTCC and each of its subsidiaries, including each of the Clearing Agencies.

would be required to be held by regulated and creditworthy financial institution counterparties and invested in specified types of financial instruments. Permitted financial investments may include, for example, deposits with banks, including the Federal Reserve Bank of New York (“FRBNY”), collateralized reverse-repurchase agreements, direct obligations of the U.S. government, money-market mutual funds and high-grade corporate debt.<sup>8</sup> Additionally, the Clearing Agencies would, pursuant to the Clearing Agency Investment Policy, be permitted to use general corporate funds, and only such funds, to enter into hedge transactions to manage certain corporate exposures, such as interest rate or foreign currency risk; hedge transactions would not be permitted to be engaged in for speculative purposes.

The Clearing Agency Investment Policy would set forth guiding principles for the investment of funds, which include adherence to a prudent and conservative investment philosophy that places the highest priority on maximizing liquidity and avoiding risk. The guiding principles would also mandate the segregation and separation of deposits to the respective FICC and NSCC Clearing Funds and the DTC Participants Fund, so that such amounts are not commingled with each other or with other funds held by the Clearing Agencies. The guiding principles would also address the process for evaluating the credit ratings of counterparties and setting investment limits, which would be evaluated, reviewed and approved quarterly by CCR. Finally, the guiding principles would make clear that risk of investment loss is addressed by the rules of each of the Clearing Agencies.

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<sup>8</sup> Only general corporate funds of a Clearing Agency would be permitted to be invested in high-grade corporate debt.

Funds invested pursuant to the Clearing Agency Investment Policy would include (i) cash deposits to the respective FICC and NSCC Clearing Funds and the DTC Participants Fund, (ii) general corporate funds of each of the Clearing Agencies, (iii) NSCC's prefunded default liquidity funds raised from the private placement of unsecured debt,<sup>9</sup> (iv) amounts deposited with NSCC by its participants to meet Rule 15c3-3, promulgated under the Act as part of its fully-paid-for service,<sup>10</sup> (v) corporate action payments or principal and interest payments on Securities credited to the Accounts of DTC Participants that are received by DTC too late in the day or missing information needed for same-day allocation,<sup>11</sup> (vi) funds collected from DTC Participants through net funds settlement and held by DTC to cover 130% of the market value of "short positions,"<sup>12</sup> and (vii) cash debited from Netting Members of FICC's Government Securities Division to satisfy such Members' mark-to-market deficits on forward settling transactions.<sup>13</sup>

Investments in collateralized reverse repurchase agreements would be secured by debt obligations of the U.S. Government or Agencies guaranteed by the U.S. Government, or by mortgage pass-through obligations issued by the Government

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<sup>9</sup> See Securities Exchange Act Release No. 75730 (August 19, 2015), 80 FR 51638 (August 25, 2015) (File No. SR-NSCC-2015-802).

<sup>10</sup> 17 CFR 240.15c3-3; see supra, note 3.

<sup>11</sup> See supra, note 3.

<sup>12</sup> In this context, "short positions" refer to Securities that have been deposited by, and credited to the Account of, a DTC Participant, pending re-registration into the name of Cede & Co., the DTC nominee, which are nevertheless permitted to be delivered to another DTC Participant; this 130% charge is held by DTC until the Securities are re-registered. See supra, note 3.

<sup>13</sup> See supra, note 3.

National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. Collateral posted by a counterparty to a reverse repurchase agreement (whether securities or a combination of securities and cash) would be required to have a market value equal to 102% or greater of the cash invested.

Investments would also be permitted in money market mutual funds that have a credit rating from one or more recognized rating agencies. All permitted investments would be short term and readily accessible for liquidity, should the need arise, minimizing market risk.

Finally, the Clearing Agency Investment Policy would identify those individuals who may authorize certain investments, the establishment of investment relationships with approved counterparties, the execution of investment transactions with certain maturities, and requests to exceed investment limits for any counterparty or any investment type. Requests to exceed counterparty limits would be capped at a certain percent of the respective limits, as set forth in the Clearing Agency Investment Policy.

## 2. Statutory Basis

Section 17A(b)(3)(F) of the Act requires, among other things, that the Clearing Agencies' respective rules be designed to promote the prompt and accurate clearance and settlement of securities transactions, to assure the safeguarding of securities and funds which are in the custody or control of the Clearing Agency or for which it is responsible, and, in general, to protect investors and the public interest.<sup>14</sup>

The investment guidelines and governance procedures set forth in the Clearing Agency Investment Policy are designed to safeguard assets and to facilitate access to

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<sup>14</sup> 15 U.S.C. 78q-1(b)(3)(F).



these assets, as needed, without delay, because certain assets that would be invested pursuant to the Clearing Agency Investment Policy constitute key liquidity resources of the Clearing Agencies. As such, these assets should be readily available to facilitate end-of-day settlement, including in the event of a member default, and to cover potential losses due to such an event. Therefore, the protections that would be afforded these assets under the Clearing Agency Investment Policy, which include, for example, following a prudent and conservative investment philosophy that places highest priority on maximizing liquidity and risk avoidance, promote the prompt and accurate clearance and settlement of securities transactions and assure the safeguarding of securities and funds related thereto, all in furtherance of protecting investors and the public interest, in compliance with Section 17A(b)(3)(F) of the Act.<sup>15</sup>

Rule 17Ad-22(d)(3), promulgated under the Act, requires the Clearing Agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to hold assets in a manner that minimizes risk of loss or of delay in its access to them and to invest assets in instruments with minimal credit, market and liquidity risks.<sup>16</sup> As stated above, the Clearing Agency Investment Policy follows a prudent and conservative investment philosophy, placing the highest priority on maximizing liquidity and avoiding risk of loss, by requiring the segregation of funds of each Clearing Agency and of types of funds of each Clearing Agency, using external credit ratings in the evaluation of counterparties, and establishing counterparty investment limits by counterparty as well as investment type. Further, by requiring that each Clearing Agency

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<sup>15</sup> Id.

<sup>16</sup> 17 CFR 240.17Ad-22(d)(3).

invest its assets in instruments with minimal credit, market and liquidity risks, the Clearing Agency Investment Policy complies with the requirements of Rule 17Ad-22(d)(3), promulgated under the Act.<sup>17</sup>

(B) Clearing Agency's Statement on Burden on Competition

Each of the Clearing Agency believes that the Clearing Agency Investment Policy would not have any impact, or impose any burden, on competition because the proposed rule change would (1) apply equally to the Clearing Fund or Participants Fund deposits, as applicable, of each member of the respective Clearing Agencies and (2) establish a uniform policy at the Clearing Agencies.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Clearing Agencies have not solicited or received any written comments relating to this proposal. The Clearing Agencies will notify the Commission of any written comments received by the Clearing Agencies.

III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

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<sup>17</sup> Id.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2016-005 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-FICC-2016-005. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2016-005 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>18</sup>

Secretary

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<sup>18</sup> 17 CFR 200.30-3(a)(12).

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