

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 55 SECURITIES AND EXCHANGE COMMISSION File No.* SR - 2017 - * 004
 WASHINGTON, D.C. 20549 Form 19b-4 Amendment No. (req. for Amendments *)

Filing by The Depository Trust Company
 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 Exhibit 3 Sent As Paper Document

Description
 Provide a brief description of the action (limit 250 characters, required when Initial is checked *).
 To adopt the Clearing Agency Liquidity Risk Management Framework

Contact Information
 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 * Jacqueline Last Name * Chezar
 Title * Executive Director and Associate General Counsel
 E-mail * jfarinella@dtcc.com
 Telephone * (212) 855-3216 Fax

Signature
 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 04/06/2017 Managing Director and Deputy General Counsel
 By Nikki Poulos npoulos@dtcc.com
 (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.

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 *

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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 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 the Proposed Rule Change

(a) The proposed rule change would adopt the Clearing Agency Liquidity Risk Management Framework (“Framework”) of The Depository Trust Company (“DTC”) and its affiliates, Fixed Income Clearing Corporation (“FICC”) and National Securities Clearing Corporation (“NSCC,” and together with FICC and DTC, the “Clearing Agencies”), described below. The Framework would apply to both of FICC’s divisions, the Government Securities Division (“GSD”) and the Mortgage-Backed Securities Division (“MBSD”). The Framework would be maintained by the Clearing Agencies in compliance with Rule 17Ad-22(e)(7)(i), (ii), and (iv) through (ix) under the Securities Exchange Act of 1934, as amended (“Act”), as described below.¹

Although the Clearing Agencies would consider the Framework to be a rule, the proposed rule change does not require any changes to the Rules, By-laws and Organization Certificate of DTC (“DTC Rules”), the Rulebook of GSD (“GSD Rules”), the Clearing Rules of MBSD (“MBSD Rules”), or the Rules & Procedures of NSCC (“NSCC Rules”), as the Framework would be a standalone document.²

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Risk Committee of the Board of Directors of each of DTC, FICC, and NSCC (collectively, “Boards”) at a meeting duly called and held on October 18, 2016.

3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

The Clearing Agencies are proposing to adopt the Framework, which would set forth the manner in which the Clearing Agencies measure, monitor and manage the liquidity risks that

¹ 17 CFR 240.17Ad-22(e)(7)(i), (ii), and (iv) through (ix). The Commission adopted amendments to Rule 17Ad-22, including the addition of new section 17Ad-22(e), on September 28, 2016. See Securities Exchange Act Release No. 78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) (S7-03-14). Each of the Clearing Agencies is a “covered clearing agency” as defined in Rule 17Ad-22(a)(5), and must comply with new section (e) of Rule 17Ad-22 by April 11, 2017.

² Capitalized terms not defined herein are defined in the DTC Rules, GSD Rules, MBSD Rules, or NSCC Rules, as applicable, available at <http://dtcc.com/legal/rules-and-procedures>.

arise in or are borne by each of the Clearing Agencies, including (i) the manner in which the Clearing Agencies would deploy liquidity tools to meet their settlement obligations on an ongoing and timely basis and (ii) each applicable Clearing Agency's use of intraday liquidity. The Framework would apply to the liquidity risk management of each of the Clearing Agencies.

The Framework would be owned and managed by the Liquidity Product Risk Unit ("LPRU").³ The Framework would outline the regulatory requirements that apply to each Clearing Agency with respect to liquidity risk management, and then would describe how the Clearing Agencies each meet those requirements. Because the regulatory requirements, liquidity risks, and liquidity resources that apply to or are available to each Clearing Agency are different, the Framework would separately describe the liquidity resources and related risk management tools available to each Clearing Agency and, with respect to FICC, to GSD and MBSD.

The Framework would describe each Clearing Agency's liquidity risk management strategy and objectives, which, for FICC and NSCC, is to maintain sufficient liquidity resources in order to meet the potential amount of funding required to settle outstanding transactions of a defaulting Member, or affiliated family ("Affiliated Family") of Members, in a timely manner.⁴ DTC's liquidity management strategy and controls are designed to maintain sufficient available liquid resources to complete system-wide settlement on each business day with a high degree of confidence notwithstanding the failure to settle of a Participant or Affiliated Family of Participants. The Framework would also state that DTC operates on a fully collateralized basis.

The Framework would address how each of the Clearing Agencies meets its requirement to hold qualifying liquid resources, as such term is defined in Rule 17Ad-22(a)(14) under the Act,⁵ sufficient to meet its minimum liquidity resource requirement in each relevant currency for which it has payment obligations owed to its Members or Participants, as applicable. The Framework would also describe the manner in which each of FICC and NSCC measures the sufficiency of their respective qualifying liquid resources through daily liquidity studies, across a range of stress scenarios. With respect to DTC, the Framework would set forth that DTC's structural features, including the Collateral Monitor, Net Debit Cap, and Participants Fund, limit the liquidity requirements in default scenarios.

³ The parent company of the Clearing Agencies is The Depository Trust & Clearing Corporation ("DTCC"). DTCC operates on a shared services model with respect to the Clearing Agencies. Most corporate functions are established and managed on an enterprise-wide basis pursuant to intercompany agreements under which it is generally DTCC that provides a relevant service to a Clearing Agency.

⁴ FICC and NSCC refer to their participants as "Members," while DTC refers to its participants as "Participants." These terms are defined in the rules of each of the Clearing Agencies. *Supra* note 2. In this filing "participant" or "participants" refers to both the Members of FICC and NSCC and the Participants of DTC.

⁵ 17 CFR 240.17Ad-22(a)(14).

The Framework would identify each of the qualifying liquid resources available to each Clearing Agency, including both GSD and MBSD. Such qualifying liquid resources include, for example, (1) deposits to the Clearing Agencies' respective Clearing Funds, or, for DTC, its Participants Fund, made by participants pursuant to the respective rules,⁶ (2) for DTC and NSCC, an annual committed credit facility,⁷ (3) for NSCC, its Members' Supplemental Liquidity Deposits,⁸ and (4) for GSD and MBSD, a rule-based Capped Contingency Liquidity Facility ("CCLF") program.⁹ The Framework would also state that the Clearing Agencies may have access to other available resources that may not meet the definition of qualifying liquid resources.

The Framework would describe how FICC and NSCC perform daily liquidity studies to measure the sufficiency of their available liquid resources to meet the cash settlement obligations of their largest Affiliated Family, in compliance with the requirements under Rule 17Ad-22(e)(7)(vi)(A) under the Act.¹⁰ The Framework would describe the manner in which daily liquidity studies are performed for both FICC and NSCC, including the assumptions used to determine each participant's total liquidity need. The Framework would state that FICC and NSCC liquidity sufficiency testing is performed daily with respect to three types of scenarios – (1) normal market scenarios, as a baseline reference point to assess other stress assumptions, (2) stressed, extreme but plausible scenarios, and (3) the same stressed, extreme but plausible scenarios applied under severely adverse market conditions that could coincide with the default of a participant. The Framework would describe the manner in which scenarios reflecting these three sets of conditions are developed and selected for testing. The Framework would describe how liquidity testing reporting is escalated on at least a monthly basis, and how these results are used to evaluate the adequacy of the liquidity resources of FICC or NSCC.

⁶ DTC Rule 4 (Participants Fund and Participants Investment), FICC/GSD Rule 4 (Clearing Fund and Loss Allocation), FICC/MBSD Rule 4 (Clearing Fund and Loss Allocation), NSCC Rule 4 (Clearing Fund). Supra note 2.

⁷ See Securities Exchange Act Release No. 77750 (April 29, 2016), 81 FR 27181 (May 5, 2016) (SR-DTC-2016-801, SR-NSCC-2016-801).

⁸ NSCC Rule 4A (Supplemental Liquidity Deposits). Supra note 2.

⁹ MBSD Rule 17, Section 2a (Procedures for When the Corporation Ceases to Act). Supra note 2. FICC/GSD has filed a proposed rule change and related advance notice to adopt a CCLF program. See Securities Exchange Act Release No. 80234 (March 14, 2017), 82 FR 14401 (March 20, 2017) (SR-FICC-2017-002) and Securities Exchange Act Release No. 80191 (March 9, 2017), 82 FR 13876 (March 15, 2017) (SR-FICC-2017-802). Upon Commission approval of this proposed rule change, FICC/GSD's CCLF program will become a qualifying liquid resource of FICC/GSD.

¹⁰ 17 CFR 240.17Ad-22(e)(7)(vi)(A). Supra note 1.

The Framework would describe how the tools available to DTC under the DTC Rules (e.g., Collateral Monitor and Net Debit Cap)¹¹ allow it to regularly test the sufficiency of liquid resources on an intraday and end-of-day basis and adjust to stressed circumstances during a settlement day to protect itself and Participants against liquidity exposure under normal and stressed market conditions.

The Framework would describe how the Clearing Agencies undertake due diligence with respect to their liquidity providers, and conduct testing with those providers at least annually. The Framework would describe how the Clearing Agencies review the limits of outstanding investments and collateral held (if applicable) of each Clearing Agency's investment counterparties, and conduct formal reviews of the reliability of its qualified liquid resource providers in extreme but plausible market conditions.

The Framework would describe how the Clearing Agencies address foreseeable liquidity shortfalls that would not be covered by their existing liquid resources, including through modifications to those existing liquid resources, for example, and would describe how their existing qualified liquid resources may be replenished. The Framework would state that the Clearing Agencies' liquidity risk models are subject to independent model validation on at least an annual basis. Finally, the Framework would describe the manner in which Clearing Agency liquidity risks are assessed and escalated through liquidity risk management controls that include a statement of risk tolerances that are specific to liquidity risk ("Liquidity Risk Tolerance Statement"), and an operational risk profile of LPRU, which contains consolidated risk and control data. The Liquidity Risk Tolerance Statement is reviewed by management within the LPRU annually, and is escalated to the Risk Committee of the Boards for review and approval at least annually.

(b) Statutory Basis

The Clearing Agencies believe that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, the Clearing Agencies believe that the Framework is consistent with Section 17A(b)(3)(F) of the Act¹² and the subsections cited below of Rule 17Ad-22(e)(7),¹³ each promulgated under the Act, for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a registered clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to assure the safeguarding of securities and funds which are in the custody or

¹¹ "Collateral Monitor" and "Net Debit Cap" are defined in DTC Rule 1, Section 1 (Definitions), and their calculations are further provided for in the DTC Settlement Service Guide of the DTC Rules. Supra note 2.

¹² 15 U.S.C. 78q-1(b)(3)(F).

¹³ 17 CFR 240.17Ad-22(e)(7). Supra note 1.

control of the clearing agency or for which it is responsible.¹⁴ As described above, the Framework would describe how the Clearing Agencies have developed and carry out a liquidity risk management strategy such that, with respect to FICC and NSCC, they maintain liquid resources sufficient to meet the potential amount of funding required to settle outstanding transactions of a defaulting Member or Affiliated Family in a timely manner, and with respect to DTC, it maintains sufficient available liquid resources to complete system-wide settlement on each business day, with a high degree of confidence and notwithstanding the failure to settle of the Participant or Affiliated Family of Participants with the largest settlement obligation. As such, the Clearing Agencies' liquidity risk management strategies address the Clearing Agencies' maintenance of sufficient liquid resources, which allow them to continue the prompt and accurate clearance and settlement of securities and can continue to assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible notwithstanding the default of a Member of an Affiliated Family. Therefore, the Clearing Agencies believe the Framework, which describes how the Clearing Agencies carry out these strategies, is consistent with the requirements of Section 17A(b)(3)(F) of the Act.¹⁵

Rule 17Ad-22(e)(7) under the Act, which requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to, among other things effectively measure, monitor, and manage the liquidity risks that arise in or are borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity.¹⁶ The Clearing Agencies believe that the Framework is designed to meet the requirements of the following subsections of Rule 17Ad-22(e)(7), cited below, for the reasons described below.¹⁷

Rule 17Ad-22(e)(7)(i) under the Act requires that a covered clearing agency maintain sufficient liquid resources at the minimum in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of foreseeable stress scenarios that includes, but is not limited to, the default of the participant family that would generate the largest aggregate payment obligation for the covered clearing agency in extreme but plausible market conditions.¹⁸ As described above, the Framework would describe how the Clearing Agencies have developed and carry out a liquidity risk management strategy such that, with respect to FICC and NSCC, they maintain liquid resources sufficient to meet the potential amount of funding required to settle outstanding transactions of a defaulting Member or Affiliated Family in a timely manner, and

¹⁴ 15 U.S.C. 78q-1(b)(3)(F).

¹⁵ Id.

¹⁶ 17 CFR 240.17Ad-22(e)(7). Supra note 1.

¹⁷ Id.

¹⁸ 17 CFR 240.17Ad-22(e)(7)(i). Supra note 1.

with respect to DTC, it maintains sufficient available liquid resources to complete system-wide settlement on each business day, with a high degree of confidence and notwithstanding the failure to settle of the Participant or Affiliated Family of Participants with the largest settlement obligation. The Framework would also describe how FICC and NSCC perform daily liquidity studies, which are designed to measure the sufficiency of their available liquid resources to meet the cash settlement obligations of their largest Affiliated Family in a number of scenarios, including (1) normal market conditions, as a baseline reference point to assess other stress assumptions, (2) stressed, extreme but plausible scenarios, and (3) the same stressed, extreme but plausible scenarios applied under severely adverse market conditions that could coincide with the default of a participant. The Framework would also describe how DTC's risk management tools allow DTC to regularly test the sufficiency of its liquid resources on an intraday and end-of-day basis and adjust to stressed circumstances during the settlement day to protect itself and Participants against liquidity exposure under normal and stressed market conditions. The Framework would also identify each of the qualified liquid resources being held by the Clearing Agencies in all relevant currencies. As such, the Clearing Agencies believe the Framework is consistent with Rule 17Ad-22(e)(7)(i).¹⁹

Rule 17Ad-22(e)(7)(ii) under the Act requires that a covered clearing agency hold qualifying liquid resources sufficient to meet the minimum liquidity resource requirement under Rule 17Ad-22(e)(7)(i) in each relevant currency for which the covered clearing agency has payment obligations owed to clearing members.²⁰ As described above, the Framework would identify each of the resources being held by each of the Clearing Agencies in all relevant currencies, which meet the definition of "qualified liquid resources" set forth in Rule 17Ad-22(e)(14).²¹ Therefore, the Clearing Agencies believe the Framework supports the Clearing Agencies' compliance with Rule 17Ad-22(e)(7)(ii) by identifying the qualified liquid resources, as such term is defined in the Act, being held by each of the Clearing Agencies.²²

Rule 17Ad-22(e)(7)(iv) under the Act requires that a covered clearing agency undertake due diligence to confirm that it has a reasonable basis to believe each of its liquidity providers, whether or not such liquidity provider is a clearing member, has (A) sufficient information to understand and manage the liquidity provider's liquidity risks; and (B) the capacity to perform as required under its commitments to provide liquidity to the covered clearing agency.²³ Further, Rule 17Ad-22(e)(7)(v) under the Act requires that a covered clearing agency maintain and test with each liquidity provider, to the extent practicable, the covered clearing agency's procedures and operational capacity for accessing each type of relevant liquid resource under Rule 17Ad-

¹⁹ Id.

²⁰ 17 CFR 240.17Ad-22(e)(7)(ii). Supra note 1.

²¹ 17 CFR 240.17Ad-22(e)(14). Supra note 1.

²² 17 CFR 240.17Ad-22(e)(7)(ii). Supra note 1.

²³ 17 CFR 240.17Ad-22(e)(7)(iv). Supra note 1.

22(e)(7)(i) at least annually.²⁴ The Framework would describe how the Clearing Agencies undertake due diligence with respect to their liquidity providers, as reasonably necessary in order to validate each such provider has sufficient liquid resources, understands its liquidity obligations, and has the capacity to perform on those obligations. These reviews, as described in the Framework, would also include a credit analysis of each liquidity provider. Further, the Framework would describe annual testing of the DTC and NSCC committed credit facility, which is conducted to confirm the lenders are operationally able to perform their commitments and are familiar with the drawdown process. Therefore, the Clearing Agencies believe the Framework is consistent with Rules 17Ad-22(e)(7)(iv) and (v) under the Act, because it would describe the Clearing Agencies' due diligence practices with respect to their liquidity providers, and the annual testing conducted with respect to the DTC and NSCC committed credit facility.²⁵

Rule 17Ad-22(e)(7)(vi) under the Act requires that a covered clearing agency determine the amount and regularly test the sufficiency of the liquid resources held for purposes of meeting the minimum liquid resource requirement under Rule 17Ad-22(e)(7)(i) by, at a minimum: (A) conducting stress testing of its liquid resources at least once each day using standard and predetermined parameters and assumptions; (B) conducting a comprehensive analysis on at least a monthly basis of the existing stress testing scenarios, models, and underlying parameters and assumptions used in evaluating liquidity needs and resources, and considering modifications to ensure they are appropriate for determining the clearing agency's identified liquidity needs and resources in light of current and evolving market conditions; (C) conducting a comprehensive analysis of the scenarios, models, and underlying parameters and assumptions used in evaluating liquidity needs and resources more frequently than monthly when the products cleared or markets served display high volatility or become less liquid, when the size or concentration of positions held by the clearing agency's participants increases significantly, or in other appropriate circumstances described in such policies and procedures; and (D) reporting the results of its analyses under Rule 17Ad-22(e)(7)(vi)(B) and (C) to appropriate decision makers at the covered clearing agency, including but not limited to, its risk management committee or board of directors, and using these results to evaluate the adequacy of and adjust its liquidity risk management methodology, model parameters, and any other relevant aspects of its liquidity risk management framework.²⁶

As described above, the Framework would describe the daily liquidity studies performed by FICC and NSCC to measure the sufficiency of its available liquid resources, including the manner in which these studies are performed, and the assumptions used to determine each participant's total liquidity need. The Framework would describe the manner in which scenarios are developed and selected for testing, and how FICC and NSCC continuously evaluate these scenarios to affirm that they continue to be appropriate, and to determine if they should be modified. The Framework would also describe how liquidity testing reporting is escalated on at

²⁴ 17 CFR 240.17Ad-22(e)(7)(v). Supra note 1.

²⁵ 17 CFR 240.17Ad-22(e)(7)(iv) and (v). Supra note 1.

²⁶ 17 CFR 240.17Ad-22(e)(7)(vi). Supra note 1.

least a monthly basis to the management committee responsible for oversight of risk management matters, and how these results are used to evaluate the adequacy of the liquidity resources of FICC or NSCC. With respect to DTC, the Framework would describe how DTC relies on the tools available under the DTC Rules (e.g., the Net Debit Cap and the Collateral Monitor) to regularly test the sufficiency of the liquid resources on an intraday and end-of-day basis and adjust to stressed circumstances during a settlement day to protect DTC and Participants against liquidity exposure under normal and stressed market conditions. Therefore, the Clearing Agencies believe the Framework is consistent with Rule 17Ad-22(e)(7)(vi) under the Act.²⁷

Rule 17Ad-22(e)(7)(vii) under the Act requires that a covered clearing agency perform a model validation of its liquidity risk models not less than annually or more frequently as may be contemplated by the covered clearing agency's risk management framework established pursuant to Rule 17Ad-22(e)(3).²⁸ The Framework would describe how the Clearing Agencies' liquidity risk models are subject to independent model validations on at least an annual basis. As such, the Clearing Agencies believe the Framework is consistent with Rule 17Ad-22(e)(7)(vii).²⁹

Rule 17Ad-22(e)(7)(viii) under the Act requires that a covered clearing agency address foreseeable liquidity shortfalls that would not be covered by the covered clearing agency's liquid resources and seek to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations.³⁰ As described above, the Framework would describe how each of the Clearing Agencies addresses a foreseeable same day liquidity shortfall through, for example, modification to its existing liquid resources. For example, DTC may address a liquidity shortfall through appropriate adjustment to the Net Debit Cap reductions, as provided under the DTC Rules.³¹ Therefore, the Clearing Agencies believe the Framework is consistent with Rule 17Ad-22(e)(7)(viii) under the Act because it would describe how each of the Clearing Agencies would address foreseeable liquidity shortfalls.³²

Rule 17Ad-22(e)(7)(ix) under the Act requires that a covered clearing agency describe the covered clearing agency's process to replenish any liquid resources that the clearing agency may employ during a stress event.³³ The Framework would describe how the Clearing Agencies' qualified liquid resources may be replenished in accordance with the respective rules

²⁷ Id.

²⁸ 17 CFR 240.17Ad-22(e)(7)(vii). Supra note 1.

²⁹ Id.

³⁰ 17 CFR 240.17Ad-22(e)(7)(viii). Supra note 1.

³¹ Supra note 11.

³² 17 CFR 240.17Ad-22(e)(7)(viii). Supra note 1.

³³ 17 CFR 240.17Ad-22(e)(7)(ix). Supra note 1.

of the Clearing Agencies. For example, the Framework would describe how the Clearing Agencies may use proceeds that may be available from the liquidation of a defaulting participant's portfolio (including the sale of collateral used to secure a borrowing) to repay liquidity borrowings, thus replenishing the relevant Clearing Agency's liquid resources. Therefore, the Clearing Agencies believe the Framework is consistent with Rule 17Ad-22(e)(7)(ix) under the Act because it would describe the Clearing Agencies' process for replenishing liquid resources as permitted under their respective rules.³⁴

4. Self-Regulatory Organization's Statement on Burden on Competition

None of the Clearing Agencies believe that the Framework would have any impact, or impose any burden, on competition because the proposed rule change reflects the existing framework that the Clearing Agencies employ to manage liquidity risk, and would not effectuate any changes to the Clearing Agencies' liquidity risk management tools as they currently apply to their respective Members or Participants.

5. Self-Regulatory Organization'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 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) or Section 19(b)(7)(D)

- (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 the Commission, the Framework is applicable to each of the Clearing Agencies,

³⁴

Id.

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 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 Liquidity Risk Management Framework. **Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 5 being requested pursuant to 17 CFR 240.24b-2.**

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-DTC-2017-004)

[DATE]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing of a Proposed Rule Change to Adopt the Clearing Agency Liquidity Risk Management Framework

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, as amended (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on April __, 2017, The Depository Trust Company (“DTC”) 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 Liquidity Risk Management Framework (“Framework”) of DTC and its affiliates, Fixed Income Clearing Corporation (“FICC”) and National Securities Clearing Corporation (“NSCC,” and together with FICC and DTC, the “Clearing Agencies”), described below. The Framework would apply to both of FICC’s divisions, the Government Securities Division (“GSD”) and the Mortgage-Backed Securities Division (“MBSD”). The Framework

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

would be maintained by the Clearing Agencies in compliance with Rule 17Ad-22(e)(7)(i), (ii), and (iv) through (ix) under the Act, as described below.³

Although the Clearing Agencies would consider the Framework to be a rule, the proposed rule change does not require any changes to the Rules, By-laws and Organization Certificate of DTC (“DTC Rules”), the Rulebook of GSD (“GSD Rules”), the Clearing Rules of MBSD (“MBSD Rules”), or the Rules & Procedures of NSCC (“NSCC Rules”), as the Framework would be a standalone document.⁴

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.

³ 17 CFR 240.17Ad-22(e)(7)(i), (ii), and (iv) through (ix). The Commission adopted amendments to Rule 17Ad-22, including the addition of new section 17Ad-22(e), on September 28, 2016. See Securities Exchange Act Release No. 78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) (S7-03-14). Each of the Clearing Agencies is a “covered clearing agency” as defined in Rule 17Ad-22(a)(5), and must comply with new section (e) of Rule 17Ad-22 by April 11, 2017.

⁴ Capitalized terms not defined herein are defined in the DTC Rules, GSD Rules, MBSD Rules, or NSCC Rules, as applicable, available at <http://dtcc.com/legal/rules-and-procedures>.

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

1. Purpose

The Clearing Agencies are proposing to adopt the Framework, which would set forth the manner in which the Clearing Agencies measure, monitor and manage the liquidity risks that arise in or are borne by each of the Clearing Agencies, including (i) the manner in which the Clearing Agencies would deploy liquidity tools to meet their settlement obligations on an ongoing and timely basis and (ii) each applicable Clearing Agency's use of intraday liquidity. The Framework would apply to the liquidity risk management of each of the Clearing Agencies.

The Framework would be owned and managed by the Liquidity Product Risk Unit ("LPRU").⁵ The Framework would outline the regulatory requirements that apply to each Clearing Agency with respect to liquidity risk management, and then would describe how the Clearing Agencies each meet those requirements. Because the regulatory requirements, liquidity risks, and liquidity resources that apply to or are available to each Clearing Agency are different, the Framework would separately describe the liquidity resources and related risk management tools available to each Clearing Agency and, with respect to FICC, to GSD and MBSD.

The Framework would describe each Clearing Agency's liquidity risk management strategy and objectives, which, for FICC and NSCC, is to maintain

⁵ The parent company of the Clearing Agencies is The Depository Trust & Clearing Corporation ("DTCC"). DTCC operates on a shared services model with respect to the Clearing Agencies. Most corporate functions are established and managed on an enterprise-wide basis pursuant to intercompany agreements under which it is generally DTCC that provides a relevant service to a Clearing Agency.

sufficient liquid resources in order to meet the potential amount of funding required to settle outstanding transactions of a defaulting Member, or affiliated family (“Affiliated Family”) of Members, in a timely manner.⁶ DTC’s liquidity management strategy and controls are designed to maintain sufficient available liquid resources to complete system-wide settlement on each business day with a high degree of confidence notwithstanding the failure to settle of a Participant or Affiliated Family of Participants. The Framework would also state that DTC operates on a fully collateralized basis.

The Framework would address how each of the Clearing Agencies meets its requirement to hold qualifying liquid resources, as such term is defined in Rule 17Ad-22(a)(14) under the Act,⁷ sufficient to meet its minimum liquidity resource requirement in each relevant currency for which it has payment obligations owed to its Members or Participants, as applicable. The Framework would also describe the manner in which each of FICC and NSCC measures the sufficiency of their respective qualifying liquid resources through daily liquidity studies, across a range of stress scenarios. With respect to DTC, the Framework would set forth that DTC’s structural features, including the Collateral Monitor, Net Debit Cap, and Participants Fund, limit the liquidity requirements in default scenarios.

The Framework would identify each of the qualifying liquid resources available to each Clearing Agency, including both GSD and MBSD. Such qualifying liquid resources

⁶ FICC and NSCC refer to their participants as “Members,” while DTC refers to its participants as “Participants.” These terms are defined in the rules of each of the Clearing Agencies. Supra note 4. In this filing “participant” or “participants” refers to both the Members of FICC and NSCC and the Participants of DTC.

⁷ 17 CFR 240.17Ad-22(a)(14).

include, for example, (1) deposits to the Clearing Agencies' respective Clearing Funds, or, for DTC, its Participants Fund, made by participants pursuant to the respective rules,⁸ (2) for DTC and NSCC, an annual committed credit facility,⁹ (3) for NSCC, its Members' Supplemental Liquidity Deposits,¹⁰ and (4) for GSD and MBSD, a rule-based Capped Contingency Liquidity Facility ("CCLF") program.¹¹ The Framework would also state that the Clearing Agencies may have access to other available resources that may not meet the definition of qualifying liquid resources.

The Framework would describe how FICC and NSCC perform daily liquidity studies to measure the sufficiency of their available liquid resources to meet the cash settlement obligations of their largest Affiliated Family, in compliance with the requirements under Rule 17Ad-22(e)(7)(vi)(A) under the Act.¹² The Framework would describe the manner in which daily liquidity studies are performed for both FICC and NSCC, including the assumptions used to determine each participant's total liquidity

⁸ DTC Rule 4 (Participants Fund and Participants Investment), FICC/GSD Rule 4 (Clearing Fund and Loss Allocation), FICC/MBSD Rule 4 (Clearing Fund and Loss Allocation), NSCC Rule 4 (Clearing Fund). Supra note 4.

⁹ See Securities Exchange Act Release No. 77750 (April 29, 2016), 81 FR 27181 (May 5, 2016) (SR-DTC-2016-801, SR-NSCC-2016-801).

¹⁰ NSCC Rule 4A (Supplemental Liquidity Deposits). Supra note 4.

¹¹ MBSD Rule 17, Section 2a (Procedures for When the Corporation Ceases to Act). Supra note 4. FICC/GSD has filed a proposed rule change and related advance notice to adopt a CCLF program. See Securities Exchange Act Release No. 80234 (March 14, 2017), 82 FR 14401 (March 20, 2017) (SR-FICC-2017-002) and Securities Exchange Act Release No. 80191 (March 9, 2017), 82 FR 13876 (March 15, 2017) (SR-FICC-2017-802). Upon Commission approval of this proposed rule change, FICC/GSD's CCLF program will become a qualifying liquid resource of FICC/GSD.

¹² 17 CFR 240.17Ad-22(e)(7)(vi)(A). Supra note 3.

need. The Framework would state that FICC and NSCC liquidity sufficiency testing is performed daily with respect to three types of scenarios – (1) normal market scenarios, as a baseline reference point to assess other stress assumptions, (2) stressed, extreme but plausible scenarios, and (3) the same stressed, extreme but plausible scenarios applied under severely adverse market conditions that could coincide with the default of a participant. The Framework would describe the manner in which scenarios reflecting these three sets of conditions are developed and selected for testing. The Framework would describe how liquidity testing reporting is escalated on at least a monthly basis, and how these results are used to evaluate the adequacy of the liquidity resources of FICC or NSCC.

The Framework would describe how the tools available to DTC under the DTC Rules (e.g., Collateral Monitor and Net Debit Cap)¹³ allow it to regularly test the sufficiency of liquid resources on an intraday and end-of-day basis and adjust to stressed circumstances during a settlement day to protect itself and Participants against liquidity exposure under normal and stressed market conditions.

The Framework would describe how the Clearing Agencies undertake due diligence with respect to their liquidity providers, and conduct testing with those providers at least annually. The Framework would describe how the Clearing Agencies review the limits of outstanding investments and collateral held (if applicable) of each Clearing Agency's investment counterparties, and conduct formal reviews of the

¹³ “Collateral Monitor” and “Net Debit Cap” are defined in DTC Rule 1, Section 1 (Definitions), and their calculations are further provided for in the DTC Settlement Service Guide of the DTC Rules. Supra note 4.

reliability of its qualified liquid resource providers in extreme but plausible market conditions.

The Framework would describe how the Clearing Agencies address foreseeable liquidity shortfalls that would not be covered by their existing liquid resources, including through modifications to those existing liquid resources, for example, and would describe how their existing qualified liquid resources may be replenished. The Framework would state that the Clearing Agencies' liquidity risk models are subject to independent model validation on at least an annual basis. Finally, the Framework would describe the manner in which Clearing Agency liquidity risks are assessed and escalated through liquidity risk management controls that include a statement of risk tolerances that are specific to liquidity risk ("Liquidity Risk Tolerance Statement"), and an operational risk profile of LPRU, which contains consolidated risk and control data. The Liquidity Risk Tolerance Statement is reviewed by management within the LPRU annually, and is escalated to the Risk Committee of the Boards for review and approval at least annually.

2. Statutory Basis

The Clearing Agencies believe that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, the Clearing Agencies believe that the Framework is consistent with Section 17A(b)(3)(F) of the Act¹⁴ and the subsections cited below of Rule 17Ad-22(e)(7),¹⁵ each promulgated under the Act, for the reasons described below.

¹⁴ 15 U.S.C. 78q-1(b)(3)(F).

¹⁵ 17 CFR 240.17Ad-22(e)(7). Supra note 3.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a registered clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and 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.¹⁶ As described above, the Framework would describe how the Clearing Agencies have developed and carry out a liquidity risk management strategy such that, with respect to FICC and NSCC, they maintain liquid resources sufficient to meet the potential amount of funding required to settle outstanding transactions of a defaulting Member or Affiliated Family in a timely manner, and with respect to DTC, it maintains sufficient available liquid resources to complete system-wide settlement on each business day, with a high degree of confidence and notwithstanding the failure to settle of the Participant or Affiliated Family of Participants with the largest settlement obligation. As such, the Clearing Agencies' liquidity risk management strategies address the Clearing Agencies' maintenance of sufficient liquid resources, which allow them to continue the prompt and accurate clearance and settlement of securities and can continue to assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible notwithstanding the default of a Member of an Affiliated Family. Therefore, the Clearing Agencies believe the Framework, which describes how the Clearing Agencies carry out these strategies, is consistent with the requirements of Section 17A(b)(3)(F) of the Act.¹⁷

¹⁶ 15 U.S.C. 78q-1(b)(3)(F).

¹⁷ Id.

Rule 17Ad-22(e)(7) under the Act, which requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to, among other things effectively measure, monitor, and manage the liquidity risks that arise in or are borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity.¹⁸ The Clearing Agencies believe that the Framework is designed to meet the requirements of the following subsections of Rule 17Ad-22(e)(7), cited below, for the reasons described below.¹⁹

Rule 17Ad-22(e)(7)(i) under the Act requires that a covered clearing agency maintain sufficient liquid resources at the minimum in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of foreseeable stress scenarios that includes, but is not limited to, the default of the participant family that would generate the largest aggregate payment obligation for the covered clearing agency in extreme but plausible market conditions.²⁰ As described above, the Framework would describe how the Clearing Agencies have developed and carry out a liquidity risk management strategy such that, with respect to FICC and NSCC, they maintain liquid resources sufficient to meet the potential amount of funding required to settle outstanding transactions of a defaulting Member or Affiliated Family in a timely manner, and with respect to DTC, it maintains sufficient available liquid resources to complete system-

¹⁸ 17 CFR 240.17Ad-22(e)(7). Supra note 3.

¹⁹ Id.

²⁰ 17 CFR 240.17Ad-22(e)(7)(i). Supra note 3.

wide settlement on each business day, with a high degree of confidence and notwithstanding the failure to settle of the Participant or Affiliated Family of Participants with the largest settlement obligation. The Framework would also describe how FICC and NSCC perform daily liquidity studies, which are designed to measure the sufficiency of their available liquid resources to meet the cash settlement obligations of their largest Affiliated Family in a number of scenarios, including (1) normal market conditions, as a baseline reference point to assess other stress assumptions, (2) stressed, extreme but plausible scenarios, and (3) the same stressed, extreme but plausible scenarios applied under severely adverse market conditions that could coincide with the default of a participant. The Framework would also describe how DTC's risk management tools allow DTC to regularly test the sufficiency of its liquid resources on an intraday and end-of-day basis and adjust to stressed circumstances during the settlement day to protect itself and Participants against liquidity exposure under normal and stressed market conditions. The Framework would also identify each of the qualified liquid resources being held by the Clearing Agencies in all relevant currencies. As such, the Clearing Agencies believe the Framework is consistent with Rule 17Ad-22(e)(7)(i).²¹

Rule 17Ad-22(e)(7)(ii) under the Act requires that a covered clearing agency hold qualifying liquid resources sufficient to meet the minimum liquidity resource requirement under Rule 17Ad-22(e)(7)(i) in each relevant currency for which the covered clearing agency has payment obligations owed to clearing members.²² As described above, the Framework would identify each of the resources being held by each of the Clearing

²¹ Id.

²² 17 CFR 240.17Ad-22(e)(7)(ii). Supra note 3.

Agencies in all relevant currencies, which meet the definition of “qualified liquid resources” set forth in Rule 17Ad-22(e)(14).²³ Therefore, the Clearing Agencies believe the Framework supports the Clearing Agencies’ compliance with Rule 17Ad-22(e)(7)(ii) by identifying the qualified liquid resources, as such term is defined in the Act, being held by each of the Clearing Agencies.²⁴

Rule 17Ad-22(e)(7)(iv) under the Act requires that a covered clearing agency undertake due diligence to confirm that it has a reasonable basis to believe each of its liquidity providers, whether or not such liquidity provider is a clearing member, has (A) sufficient information to understand and manage the liquidity provider’s liquidity risks; and (B) the capacity to perform as required under its commitments to provide liquidity to the covered clearing agency.²⁵ Further, Rule 17Ad-22(e)(7)(v) under the Act requires that a covered clearing agency maintain and test with each liquidity provider, to the extent practicable, the covered clearing agency’s procedures and operational capacity for accessing each type of relevant liquid resource under Rule 17Ad-22(e)(7)(i) at least annually.²⁶ The Framework would describe how the Clearing Agencies undertake due diligence with respect to their liquidity providers, as reasonably necessary in order to validate each such provider has sufficient liquid resources, understands its liquidity obligations, and has the capacity to perform on those obligations. These reviews, as described in the Framework, would also include a credit analysis of each liquidity

²³ 17 CFR 240.17Ad-22(e)(14). Supra note 3.

²⁴ 17 CFR 240.17Ad-22(e)(7)(ii). Supra note 3.

²⁵ 17 CFR 240.17Ad-22(e)(7)(iv). Supra note 3.

²⁶ 17 CFR 240.17Ad-22(e)(7)(v). Supra note 3.

provider. Further, the Framework would describe annual testing of the DTC and NSCC committed credit facility, which is conducted to confirm the lenders are operationally able to perform their commitments and are familiar with the drawdown process.

Therefore, the Clearing Agencies believe the Framework is consistent with Rules 17Ad-22(e)(7)(iv) and (v) under the Act, because it would describe the Clearing Agencies' due diligence practices with respect to their liquidity providers, and the annual testing conducted with respect to the DTC and NSCC committed credit facility.²⁷

Rule 17Ad-22(e)(7)(vi) under the Act requires that a covered clearing agency determine the amount and regularly test the sufficiency of the liquid resources held for purposes of meeting the minimum liquid resource requirement under Rule 17Ad-22(e)(7)(i) by, at a minimum: (A) conducting stress testing of its liquid resources at least once each day using standard and predetermined parameters and assumptions; (B) conducting a comprehensive analysis on at least a monthly basis of the existing stress testing scenarios, models, and underlying parameters and assumptions used in evaluating liquidity needs and resources, and considering modifications to ensure they are appropriate for determining the clearing agency's identified liquidity needs and resources in light of current and evolving market conditions; (C) conducting a comprehensive analysis of the scenarios, models, and underlying parameters and assumptions used in evaluating liquidity needs and resources more frequently than monthly when the products cleared or markets served display high volatility or become less liquid, when the size or concentration of positions held by the clearing agency's participants increases significantly, or in other appropriate circumstances described in

²⁷ 17 CFR 240.17Ad-22(e)(7)(iv) and (v). Supra note 3.

such policies and procedures; and (D) reporting the results of its analyses under Rule 17Ad-22(e)(7)(vi)(B) and (C) to appropriate decision makers at the covered clearing agency, including but not limited to, its risk management committee or board of directors, and using these results to evaluate the adequacy of and adjust its liquidity risk management methodology, model parameters, and any other relevant aspects of its liquidity risk management framework.²⁸

As described above, the Framework would describe the daily liquidity studies performed by FICC and NSCC to measure the sufficiency of its available liquid resources, including the manner in which these studies are performed, and the assumptions used to determine each participant's total liquidity need. The Framework would describe the manner in which scenarios are developed and selected for testing, and how FICC and NSCC continuously evaluate these scenarios to affirm that they continue to be appropriate, and to determine if they should be modified. The Framework would also describe how liquidity testing reporting is escalated on at least a monthly basis to the management committee responsible for oversight of risk management matters, and how these results are used to evaluate the adequacy of the liquidity resources of FICC or NSCC. With respect to DTC, the Framework would describe how DTC relies on the tools available under the DTC Rules (e.g., the Net Debit Cap and the Collateral Monitor) to regularly test the sufficiency of the liquid resources on an intraday and end-of-day basis and adjust to stressed circumstances during a settlement day to protect DTC and Participants against liquidity exposure under normal and stressed market conditions.

²⁸ 17 CFR 240.17Ad-22(e)(7)(vi). Supra note 3.

Therefore, the Clearing Agencies believe the Framework is consistent with Rule 17Ad-22(e)(7)(vi) under the Act.²⁹

Rule 17Ad-22(e)(7)(vii) under the Act requires that a covered clearing agency perform a model validation of its liquidity risk models not less than annually or more frequently as may be contemplated by the covered clearing agency's risk management framework established pursuant to Rule 17Ad-22(e)(3).³⁰ The Framework would describe how the Clearing Agencies' liquidity risk models are subject to independent model validations on at least an annual basis. As such, the Clearing Agencies believe the Framework is consistent with Rule 17Ad-22(e)(7)(vii).³¹

Rule 17Ad-22(e)(7)(viii) under the Act requires that a covered clearing agency address foreseeable liquidity shortfalls that would not be covered by the covered clearing agency's liquid resources and seek to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations.³² As described above, the Framework would describe how each of the Clearing Agencies addresses a foreseeable same day liquidity shortfall through, for example, modification to its existing liquid resources. For example, DTC may address a liquidity shortfall through appropriate adjustment to the Net Debit Cap reductions, as provided under the DTC Rules.³³ Therefore, the Clearing Agencies believe the Framework is consistent with Rule 17Ad-22(e)(7)(viii) under the Act because

²⁹ Id.

³⁰ 17 CFR 240.17Ad-22(e)(7)(vii). Supra note 3.

³¹ Id.

³² 17 CFR 240.17Ad-22(e)(7)(viii). Supra note 3.

³³ Supra note 13.

it would describe how each of the Clearing Agencies would address foreseeable liquidity shortfalls.³⁴

Rule 17Ad-22(e)(7)(ix) under the Act requires that a covered clearing agency describe the covered clearing agency's process to replenish any liquid resources that the clearing agency may employ during a stress event.³⁵ The Framework would describe how the Clearing Agencies' qualified liquid resources may be replenished in accordance with the respective rules of the Clearing Agencies. For example, the Framework would describe how the Clearing Agencies may use proceeds that may be available from the liquidation of a defaulting participant's portfolio (including the sale of collateral used to secure a borrowing) to repay liquidity borrowings, thus replenishing the relevant Clearing Agency's liquid resources. Therefore, the Clearing Agencies believe the Framework is consistent with Rule 17Ad-22(e)(7)(ix) under the Act because it would describe the Clearing Agencies' process for replenishing liquid resources as permitted under their respective rules.³⁶

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

None of the Clearing Agencies believe that the Framework would have any impact, or impose any burden, on competition because the proposed rule change reflects the existing framework that the Clearing Agencies employ to manage liquidity risk, and would not effectuate any changes to the Clearing Agencies' liquidity risk management tools as they currently apply to their respective Members or Participants.

³⁴ 17 CFR 240.17Ad-22(e)(7)(viii). Supra note 3.

³⁵ 17 CFR 240.17Ad-22(e)(7)(ix). Supra note 3.

³⁶ Id.

(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 clearing agency 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.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

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. Please include File Number SR-DTC-2017-004 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-DTC-2017-004. 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 DTC 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-DTC-2017-004 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.³⁷

Secretary

³⁷ 17 CFR 200.30-3(a)(12).

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