

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of \* 29 SECURITIES AND EXCHANGE COMMISSION File No.\* SR - 2017 - \* 016  
 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

<b>Initial *</b>	<b>Amendment *</b>	<b>Withdrawal</b>	<b>Section 19(b)(2) *</b>	<b>Section 19(b)(3)(A) *</b>	<b>Section 19(b)(3)(B) *</b>
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
			Rule		
<b>Pilot</b>	<b>Extension of Time Period for Commission Action *</b>	<b>Date Expires *</b>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="text"/>	<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)	

<b>Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010</b>	<b>Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934</b>
<b>Section 806(e)(1) *</b>	<b>Section 806(e)(2) *</b>
<input type="checkbox"/>	<input type="checkbox"/>
	<b>Section 3C(b)(2) *</b>
	<input type="checkbox"/>

<b>Exhibit 2 Sent As Paper Document</b>	<b>Exhibit 3 Sent As Paper Document</b>
<input type="checkbox"/>	<input type="checkbox"/>

**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

To adopt the Clearing Agency Securities Valuation 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 \*  Last Name \*

Title \*

E-mail \*

Telephone \*  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

By

(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 Securities Valuation 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, the “CCPs,” and the CCPs together with DTC, the “Clearing Agencies”), described below. The Framework would apply to DTC, NSCC, and 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 to support their compliance with Rule 17Ad-22(e)(4)(i)<sup>1</sup> and, with respect to the CCPs, Rule 17Ad-22(e)(6)(iv)<sup>2</sup> under the Securities Exchange Act of 1934, as amended (“Act”), as described below.

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.<sup>3</sup>

(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 December 20, 2016.

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<sup>1</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>2</sup> 17 CFR 240.17Ad-22(e)(6)(iv). Each of the Clearing Agencies is a “covered clearing agency” as defined in Rule 17Ad-22(a)(5), and must comply with subsection (e) of Rule 17Ad-22. As Rule 17Ad-22(e)(6)(iv) only applies to covered clearing agencies that are central counterparties, references thereto and compliance therewith apply to the CCPs only and do not apply to DTC.

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

### **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 securities valuation practices adopted by the Clearing Agencies for (i) securities eligible for clearance and settlement processing by the applicable Clearing Agency and (ii) with respect to the CCPs, eligible securities in their respective Clearing Funds (each, a “CUSIP”). The processes and systems described in the Framework, and any policies, procedures, or other documents created to support those processes, support the Clearing Agencies’ compliance with the requirements of Rule 17Ad-22(e)(4)(i)<sup>4</sup> and, with respect to the CCPs, Rule 17Ad-22(e)(6)(iv).<sup>5</sup> The Framework would be owned and managed by the head of the DTCC Securities Valuation team, on behalf of the Clearing Agencies.<sup>6</sup>

The Framework would provide that (i) any changes to the Framework must be approved by the Boards or such committee as may be delegated authority by the Boards from time to time pursuant to their charters, (ii) the head of the Securities Valuation team, or a delegate thereof, reviews the Framework at least annually, and (iii) any and all changes to the Framework are subject to regulatory review and approval.

To the extent the Clearing Agencies create any policies, procedures or other documents to support the execution of the Framework, the Framework would provide that such supplemental documentation is subordinate to the Framework, is reasonably and fairly implied by the Framework, and complies in all respects with the provisions of the Framework.

As described in more detail below, the Framework would describe the manner in which the Clearing Agencies identify, measure, monitor, and manage the risks related to the pricing of the CUSIPs. The Framework would set forth the methodology of the Clearing Agencies for using timely price data and for pricing CUSIPs when pricing data are not readily available or reliable. The Framework would also describe the methodology for monitoring pricing data with respect to the CUSIPs.

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<sup>4</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>5</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

<sup>6</sup> 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.

### *Selection of Pricing Vendors*

Each Clearing Agency would value its applicable CUSIP prices (both end-of-day and intraday) primarily via receipt of files from third-party pricing vendors (“Pricing Vendors”).<sup>7</sup> For most CUSIPs, Pricing Vendors would supply the Clearing Agencies with intraday pricing files for each business day on at least an hourly basis.<sup>8</sup> Pricing Vendors would be selected by each Clearing Agency based on a review of their service, including, at a minimum, a review of Pricing Vendors’ securities coverage and a price quality check. Each Clearing Agency would perform due diligence on each Pricing Vendor prior to engagement thereof, and at least annually thereafter, to assess the reliability of such Pricing Vendor. Reliability of a Pricing Vendor would be determined by each Clearing Agency based on a range of factors, including, without limitation, whether such Pricing Vendor is able to provide accurate and timely pricing data with respect to each CUSIP.

The Framework would provide that each CUSIP is assigned a primary source Pricing Vendor (“Primary Pricing Vendor”) and a secondary source Pricing Vendor (“Secondary Pricing Vendor”). In the event that the Primary Pricing Vendor becomes unavailable, unreliable, or otherwise unusable with respect to a CUSIP, the Secondary Pricing Vendor would be designated as the replacement for the Primary Pricing Vendor with respect to such CUSIP.

### *Monitoring and Pricing*

Each Clearing Agency would monitor and review each applicable Pricing Vendor’s pricing at least once each business day to determine (i) whether any CUSIP’s price has remained unchanged for an extended period, (ii) whether a CUSIP has been dropped from the Pricing Vendor’s file, and (iii) whether any other circumstances exist that may call into question the reliability of any CUSIP’s price.

Each CUSIP’s end-of-day price would be date stamped and identified with its Pricing Vendor source. In the event that both Primary Pricing Vendor and Secondary Pricing Vendor become unavailable, unreliable, or otherwise unusable with respect to a CUSIP for an end-of-day price, the applicable Clearing Agency would assign such CUSIP its last available price.

Each CUSIP’s intraday price would be time and date stamped and identified with its Pricing Vendor source. In the event that both Primary Pricing Vendor and Secondary Pricing Vendor become unavailable, unreliable, or otherwise unusable with respect to a CUSIP for a specific intraday interval, the applicable Clearing Agency would assign such CUSIP its last available price.

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<sup>7</sup> When pricing data is not available from Pricing Vendors, the price would be procured from other internal or external sources.

<sup>8</sup> Certain CUSIPs may not be priced daily, and others may only be priced once each business day.

If pricing data for a CUSIP is not available from Pricing Vendors or if the last available price is deemed to be unreliable or unusable with respect to a CUSIP, the applicable Clearing Agency would establish a price for the CUSIP based on valuation models, where applicable, and in accordance with the policies and procedures that support the Framework.

(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 Act<sup>9</sup> as well as Rule 17Ad-22(e)(4)(i)<sup>10</sup> and, with respect to the CCPs, Rule 17Ad-22(e)(6)(iv)<sup>11</sup> 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 control of the clearing agency or for which it is responsible.<sup>12</sup> As described above, the Framework would set forth the manner in which the Clearing Agencies identify, measure, monitor, and manage the risks related to the pricing of securities processed or otherwise held by the Clearing Agencies. The processes, systems, and controls used by the Clearing Agencies to identify, measure, monitor, and manage such risks, as described in the Framework, and the policies and procedures that support these activities, would help assure that each Clearing Agency is using reliable sources of timely price data as well as procedures and sound valuation models when pricing data are not readily available or reliable. Using reliable sources of timely price data as well as procedures and sound valuation models when pricing data are not readily available or reliable (i) with respect to the CCPs, would improve their margin system accuracy and (ii) with respect to DTC, is essential for the daily settlement of securities transactions in a fully collateralized system. Since margin and collateral play key roles in the applicable Clearing Agency's risk management process, having accurate margin system and collateral valuation would assist the Clearing Agencies to continue the prompt and accurate clearance and settlement of securities transactions and continue to assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible. Therefore, the Clearing Agencies believe the Framework is consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>13</sup>

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<sup>9</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>10</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>11</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

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

<sup>13</sup> Id.

Rule 17Ad-22(e)(4)(i) under the Act requires that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant with a high degree of confidence.<sup>14</sup> The Framework would describe how the Clearing Agencies identify, measure, monitor, and manage the risks related to the pricing of securities processed or otherwise held by the Clearing Agencies. The processes, systems, and controls used by the Clearing Agencies to identify, measure, monitor, and manage such risks, as described in the Framework, and the policies and procedures that support these activities, would help assure that each Clearing Agency is using (i) reliable sources of timely price data when pricing securities processed or otherwise held by the applicable Clearing Agency and (ii) procedures and sound valuation models when pricing data are not readily available or reliable. When pricing securities, using reliable sources of timely price data as well as procedures and sound valuation models when pricing data are not readily available or reliable is essential to each Clearing Agency's ability to effectively identify, measure, monitor and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant with a high degree of confidence. Therefore, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(4)(i).<sup>15</sup>

Rule 17Ad-22(e)(6)(iv) under the Act requires that each covered clearing agency that is a central counterparty establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses reliable sources of timely price data and uses procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable.<sup>16</sup> The Framework would describe how the CCPs identify, measure, monitor, and manage the risks related to the pricing of securities processed or otherwise held by the CCPs. The processes, systems, and controls used by the CCPs to identify, measure, monitor, and manage such risks, as described in the Framework, and the policies and procedures that support these activities, would help assure that each CCP is using reliable sources of timely price data as well as procedures and sound valuation models when pricing data are not readily available or reliable. Specifically, the Framework would set forth the methodology for pricing securities processed or otherwise held by each CCP, including monitoring pricing data with respect to the securities eligible for clearance and settlement processing by the CCP and for eligible securities held in its Clearing Fund. In addition, the Framework would describe how each CCP would price securities when pricing data are not readily available or reliable. By setting forth how the CCPs would use timely price data when pricing securities and how each

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<sup>14</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>15</sup> Id.

<sup>16</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

CCP would price securities when pricing data are not readily available or reliable, the CCPs believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(6)(iv).<sup>17</sup>

**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 some of the existing securities valuation practices that the Clearing Agencies employ, which have been designed to assist the Clearing Agencies in using reliable sources of timely price data as well as procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable. The proposed rule change would not effectuate any changes to the Clearing Agencies' processes described therein 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, and each of the Clearing Agencies has filed similar proposed rule changes concurrently with this filing.

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<sup>17</sup>

Id.



**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 Securities Valuation 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-2017-016)

[DATE]

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, as amended (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September \_\_, 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 Securities Framework (“Framework”) of DTC and its affiliates, Fixed Income Clearing Corporation (“FICC”) and National Securities Clearing Corporation (“NSCC,” and together with FICC, the “CCPs,” and the CCPs together with DTC, the “Clearing Agencies”), described below. The Framework would apply to DTC, NSCC, and 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

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

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

Agencies to support their compliance with Rule 17Ad-22(e)(4)(i)<sup>3</sup> and, with respect to the CCPs, Rule 17Ad-22(e)(6)(iv)<sup>4</sup> under the Act, as described below.

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.<sup>5</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.

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<sup>3</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>4</sup> 17 CFR 240.17Ad-22(e)(6)(iv). Each of the Clearing Agencies is a “covered clearing agency” as defined in Rule 17Ad-22(a)(5), and must comply with subsection (e) of Rule 17Ad-22. As Rule 17Ad-22(e)(6)(iv) only applies to covered clearing agencies that are central counterparties, references thereto and compliance therewith apply to the CCPs only and do not apply to DTC.

<sup>5</sup> Capitalized terms not defined herein are defined in the DTC Rules, GSD Rules, MBSD Rules, or NSCC Rules, as applicable, each 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 securities valuation practices adopted by the Clearing Agencies for (i) securities eligible for clearance and settlement processing by the applicable Clearing Agency and (ii) with respect to the CCPs, eligible securities in their respective Clearing Funds (each, a "CUSIP"). The processes and systems described in the Framework, and any policies, procedures, or other documents created to support those processes, support the Clearing Agencies' compliance with the requirements of Rule 17Ad-22(e)(4)(i)<sup>6</sup> and, with respect to the CCPs, Rule 17Ad-22(e)(6)(iv).<sup>7</sup> The Framework would be owned and managed by the head of the DTCC Securities Valuation team, on behalf of the Clearing Agencies.<sup>8</sup>

The Framework would provide that (i) any changes to the Framework must be approved by the Boards or such committee as may be delegated authority by the Boards from time to time pursuant to their charters, (ii) the head of the Securities Valuation team, or a delegate thereof, reviews the Framework at least annually, and (iii) any and all changes to the Framework are subject to regulatory review and approval.

To the extent the Clearing Agencies create any policies, procedures or other documents to support the execution of the Framework, the Framework would provide

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<sup>6</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>7</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

<sup>8</sup> 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.

that such supplemental documentation is subordinate to the Framework, is reasonably and fairly implied by the Framework, and complies in all respects with the provisions of the Framework.

As described in more detail below, the Framework would describe the manner in which the Clearing Agencies identify, measure, monitor, and manage the risks related to the pricing of the CUSIPs. The Framework would set forth the methodology of the Clearing Agencies for using timely price data and for pricing CUSIPs when pricing data are not readily available or reliable. The Framework would also describe the methodology for monitoring pricing data with respect to the CUSIPs.

#### *Selection of Pricing Vendors*

Each Clearing Agency would value its applicable CUSIP prices (both end-of-day and intraday) primarily via receipt of files from third-party pricing vendors (“Pricing Vendors”).<sup>9</sup> For most CUSIPs, Pricing Vendors would supply the Clearing Agencies with intraday pricing files for each business day on at least an hourly basis.<sup>10</sup> Pricing Vendors would be selected by each Clearing Agency based on a review of their service, including, at a minimum, a review of Pricing Vendors’ securities coverage and a price quality check. Each Clearing Agency would perform due diligence on each Pricing Vendor prior to engagement thereof, and at least annually thereafter, to assess the reliability of such Pricing Vendor. Reliability of a Pricing Vendor would be determined by each Clearing Agency based on a range of factors, including, without limitation,

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<sup>9</sup> When pricing data is not available from Pricing Vendors, the price would be procured from other internal or external sources.

<sup>10</sup> Certain CUSIPs may not be priced daily, and others may only be priced once each business day.

whether such Pricing Vendor is able to provide accurate and timely pricing data with respect to each CUSIP.

The Framework would provide that each CUSIP is assigned a primary source Pricing Vendor (“Primary Pricing Vendor”) and a secondary source Pricing Vendor (“Secondary Pricing Vendor”). In the event that the Primary Pricing Vendor becomes unavailable, unreliable, or otherwise unusable with respect to a CUSIP, the Secondary Pricing Vendor would be designated as the replacement for the Primary Pricing Vendor with respect to such CUSIP.

*Monitoring and Pricing*

Each Clearing Agency would monitor and review each applicable Pricing Vendor’s pricing at least once each business day to determine (i) whether any CUSIP’s price has remained unchanged for an extended period, (ii) whether a CUSIP has been dropped from the Pricing Vendor’s file, and (iii) whether any other circumstances exist that may call into question the reliability of any CUSIP’s price.

Each CUSIP’s end-of-day price would be date stamped and identified with its Pricing Vendor source. In the event that both Primary Pricing Vendor and Secondary Pricing Vendor become unavailable, unreliable, or otherwise unusable with respect to a CUSIP for an end-of-day price, the applicable Clearing Agency would assign such CUSIP its last available price.

Each CUSIP’s intraday price would be time and date stamped and identified with its Pricing Vendor source. In the event that both Primary Pricing Vendor and Secondary Pricing Vendor become unavailable, unreliable, or otherwise unusable with respect to a

CUSIP for a specific intraday interval, the applicable Clearing Agency would assign such CUSIP its last available price.

If pricing data for a CUSIP is not available from Pricing Vendors or if the last available price is deemed to be unreliable or unusable with respect to a CUSIP, the applicable Clearing Agency would establish a price for the CUSIP based on valuation models, where applicable, and in accordance with the policies and procedures that support the Framework.

## 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 Act<sup>11</sup> as well as Rule 17Ad-22(e)(4)(i)<sup>12</sup> and, with respect to the CCPs, Rule 17Ad-22(e)(6)(iv)<sup>13</sup> 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 control of the clearing agency or for which it is responsible.<sup>14</sup> As described above, the Framework would set forth the manner in which the Clearing

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<sup>11</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>12</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>13</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

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

Agencies identify, measure, monitor, and manage the risks related to the pricing of securities processed or otherwise held by the Clearing Agencies. The processes, systems, and controls used by the Clearing Agencies to identify, measure, monitor, and manage such risks, as described in the Framework, and the policies and procedures that support these activities, would help assure that each Clearing Agency is using reliable sources of timely price data as well as procedures and sound valuation models when pricing data are not readily available or reliable. Using reliable sources of timely price data as well as procedures and sound valuation models when pricing data are not readily available or reliable (i) with respect to the CCPs, would improve their margin system accuracy and (ii) with respect to DTC, is essential for the daily settlement of securities transactions in a fully collateralized system. Since margin and collateral play key roles in the applicable Clearing Agency's risk management process, having accurate margin system and collateral valuation would assist the Clearing Agencies to continue the prompt and accurate clearance and settlement of securities transactions and continue to assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible. Therefore, the Clearing Agencies believe the Framework is consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>15</sup>

Rule 17Ad-22(e)(4)(i) under the Act requires that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant

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<sup>15</sup> Id.



with a high degree of confidence.<sup>16</sup> The Framework would describe how the Clearing Agencies identify, measure, monitor, and manage the risks related to the pricing of securities processed or otherwise held by the Clearing Agencies. The processes, systems, and controls used by the Clearing Agencies to identify, measure, monitor, and manage such risks, as described in the Framework, and the policies and procedures that support these activities, would help assure that each Clearing Agency is using (i) reliable sources of timely price data when pricing securities processed or otherwise held by the applicable Clearing Agency and (ii) procedures and sound valuation models when pricing data are not readily available or reliable. When pricing securities, using reliable sources of timely price data as well as procedures and sound valuation models when pricing data are not readily available or reliable is essential to each Clearing Agency's ability to effectively identify, measure, monitor and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant with a high degree of confidence. Therefore, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(4)(i).<sup>17</sup>

Rule 17Ad-22(e)(6)(iv) under the Act requires that each covered clearing agency that is a central counterparty establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses reliable sources of timely price data and uses procedures and sound valuation models for addressing

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<sup>16</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>17</sup> Id.

circumstances in which pricing data are not readily available or reliable.<sup>18</sup> The Framework would describe how the CCPs identify, measure, monitor, and manage the risks related to the pricing of securities processed or otherwise held by the CCPs. The processes, systems, and controls used by the CCPs to identify, measure, monitor, and manage such risks, as described in the Framework, and the policies and procedures that support these activities, would help assure that each CCP is using reliable sources of timely price data as well as procedures and sound valuation models when pricing data are not readily available or reliable. Specifically, the Framework would set forth the methodology for pricing securities processed or otherwise held by each CCP, including monitoring pricing data with respect to the securities eligible for clearance and settlement processing by the CCP and for eligible securities held in its Clearing Fund. In addition, the Framework would describe how each CCP would price securities when pricing data are not readily available or reliable. By setting forth how the CCPs would use timely price data when pricing securities and how each CCP would price securities when pricing data are not readily available or reliable, the CCPs believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(6)(iv).<sup>19</sup>

(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 some of the existing securities valuation practices that the Clearing Agencies employ, which have been designed to assist the Clearing Agencies in using reliable sources of

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<sup>18</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

<sup>19</sup> Id.

timely price data as well as procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable. The proposed rule change would not effectuate any changes to the Clearing Agencies' processes described therein as they currently apply to their respective members or participants.

(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.

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-DTC-2017-016 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-2017-016. 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-2017-016 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>20</sup>

Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).

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