

Required fields are shown with yellow backgrounds and asterisks.

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

Filing by National Securities Clearing Corporation
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

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) *	Section 806(e)(2) *
<input type="checkbox"/>	<input type="checkbox"/>
	Section 3C(b)(2) *
	<input type="checkbox"/>

Exhibit 2 Sent As Paper Document	Exhibit 3 Sent As Paper Document
<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 Policy on Capital Requirements and the Clearing Agency Capital Replenishment Plan of the Clearing Agencies.

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 *

Add Remove View

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

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

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

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

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Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

1. Text of Proposed Rule Change

(a) The proposed rule change would adopt (1) the Clearing Agency Policy on Capital Requirements (“Capital Policy” or “Policy”) of National Securities Clearing Corporation (“NSCC”) and its affiliates, The Depository Trust Company (“DTC”) and Fixed Income Clearing Corporation (“FICC,” and together with DTC and NSCC, the “Clearing Agencies”); and (2) the Clearing Agency Capital Replenishment Plan (“Capital Replenishment Plan” or “Plan”) of the Clearing Agencies, both described below. The Capital Policy and the Capital Replenishment Plan would be maintained by the Clearing Agencies in compliance with Rule 17Ad-22(e)(15), under the Securities Exchange Act of 1934, as amended (“Act”), as described below.¹

Although the Clearing Agencies would consider the Capital Policy and the Capital Replenishment Plan to be rules, the proposed rule change does not require any changes to the Rules, By-laws and Organizational Certificate of DTC (“DTC Rules”), the Rulebook of the Government Securities Division of FICC (“GSD Rules”), the Clearing Rules of the Mortgage-Backed Securities Division of FICC (“MBSD Rules”), or the Rules & Procedures of NSCC (“NSCC Rules”), as the Policy and the Plan would be standalone documents.²

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Clearing Agency

(a) The proposed rule change was approved by the Board of Directors of each of DTC, FICC, and NSCC (collectively, “Boards”) at meetings duly called and held on December 21, 2016 and February 14, 2017.

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

(a) Purpose

The Clearing Agencies are proposing to adopt the Capital Policy, which would set forth the manner in which each Clearing Agency identifies, monitors, and manages its general

¹ 17 CFR 240.17Ad-22(e)(15). 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>.

business risk with respect to the requirement to hold sufficient liquid net assets (“LNA”) funded by equity to cover potential general business losses so the Clearing Agency can continue operations and services as a going concern if such losses materialize. The amount of LNA funded by equity to be held by each of the Clearing Agencies for this purpose would be defined in the Policy as the General Business Risk Capital Requirement. The Capital Policy would also address how each Clearing Agency maintains a portion of retained earnings as LNA funded by equity as its Credit Risk Capital Requirement, in accordance with its rules and as a part of its management of credit risk.³

As described in greater detail below, the Capital Policy would describe how each Clearing Agency’s General Business Risk Capital Requirement and Credit Risk Capital Requirement fit within the Clearing Agencies’ Capital Framework. The Policy would describe how each Clearing Agency calculates the appropriate amount of LNA funded by equity to be held as its General Business Risk Capital Requirement. The Policy would also describe how each Clearing Agency maintains, monitors, and manages its total amount of LNA funded by equity. Finally, the Policy provides for a viable plan for the replenishment of capital through the Capital Replenishment Plan.

The Clearing Agencies are also proposing to adopt the Capital Replenishment Plan as a viable plan for the replenishment of capital by each Clearing Agency, should its equity fall close to or below the amount being held as its Total Capital Requirement pursuant to the Capital Policy. As described in greater detail below, the Capital Replenishment Plan would identify the circumstances that would trigger implementation of the Plan; the roles, responsibilities, and guiding principles for implementation of the Plan; and an overview and description of each of the tools that may be used to replenish capital.

Both the Capital Policy and the Capital Replenishment Plan would be owned and managed by the Treasury group (“Treasury”) of DTCC.⁴ The Boards, or such committees as may be delegated authority by the Boards from time to time pursuant to their charters, would review and approve the Capital Policy and the Capital Replenishment Plan on an annual basis.

³ LNA funded by equity held as the Clearing Agencies’ Credit Risk Capital Requirement is held in addition to resources held by the Clearing Agencies for credit risk in compliance with Rule 17Ad-22(e)(4), and in addition to resources held by the Clearing Agencies for liquidity risk in compliance with Rule 17Ad-22(e)(7). 17 CFR 240.17Ad-22(e)(4), (7). Supra note 1.

⁴ 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. Treasury is a part of the Finance Department and is responsible for carrying out the roles and responsibilities described in the Capital Policy and Capital Replenishment Plan.

Overview of Capital Policy.

The Capital Policy would describe how the General Business Risk Capital Requirement and the Credit Risk Capital Requirement of each Clearing Agency, as both are defined in the Policy and described below, fit within the Clearing Agencies' Capital Framework. The Capital Framework would include the total amount of capital to be held by each of the Clearing Agencies in order to (1) comply with regulatory requirements for general business risk, as its General Business Risk Capital Requirement,⁵ and (2) maintain a portion of retained earnings to address credit risks, as its Credit Risk Capital Requirement, consistent its rules.⁶ The Total Capital Requirement of each Clearing Agency would be calculated as the sum of its General Business Risk Capital Requirement and Credit Risk Capital Requirement.

In addition to the Total Capital Requirement, the Clearing Agencies' Capital Framework would also include an additional, discretionary amount of LNA funded by equity, referred to as a "Buffer." The amount held as Buffer would be periodically reassessed by Treasury, and would generally equal approximately four to six (4-6) months of operating expenses for the respective Clearing Agency based on various factors, including historical fluctuations of LNA and estimates of potential losses from general business risk.

Next, the Policy would describe how the Clearing Agencies each maintain a Credit Risk Capital Requirement, comprised of a portion of retained earnings, in accordance with their respective rules.⁷ Under the Policy, these resources would be maintained to address losses due to a participant default, and held in addition to the LNA funded by equity held by each of the Clearing Agencies as its General Business Risk Capital Requirement.

The Policy would also describe how each Clearing Agency would determine the appropriate amount of LNA funded by equity to be held as its General Business Risk Capital Requirement, which would be an amount sufficient to cover potential general business losses so that the Clearing Agency can continue operations and services as a going concern if those losses materialize.⁸ Under the Policy, this amount would be calculated for each Clearing Agency as the greatest of three separate calculations – an amount based on that Clearing Agency's general business risk profile ("Risk-Based Capital Requirement"), an amount based on the time estimated to execute a recovery or orderly wind-down of the critical operations of that Clearing Agency ("Recovery/Wind-down Capital Requirement"), and an amount based on an analysis of that Clearing Agency's estimated operating expenses for a six (6) month period ("Operating Expense Capital Requirement"). On an annual basis, each of these three capital requirements would be measured, and the General Business Risk Capital Requirement for each Clearing Agency would be determined as the greatest of these calculations.

⁵ 17 CFR 240.17Ad-22(e)(15). Supra note 1.

⁶ See DTC Rule 4, GSD Rule 4, MBSD Rule 4, and NSCC Rule 4 and Addendum E. Supra note 2.

⁷ Id.

⁸ 17 CFR 240.17Ad-22(e)(15). Supra note 1.

Under the Policy, the Risk-Based Capital Requirement of each Clearing Agency would be calculated by identifying the general business risk profile of that Clearing Agency through analysis of the Clearing Agency's business performance, key performance indicators, and market environment and through comparison of financial performance versus the entity's budget and forecast.⁹ Treasury would then calculate the amount necessary to cover those potential general business losses so the Clearing Agency can continue operations and services if those losses materialize. The sum of these amounts would constitute that Clearing Agency's Risk-Based Capital Requirement.

The Recovery/Wind-down Capital Requirement of each Clearing Agency would be determined by that Clearing Agency's Board as the amount it deems to be sufficient to ensure a recovery or wind-down of critical operations and services of that Clearing Agency. On an annual basis, and in order to assist each Board in making its determination, Treasury would calculate the greatest of (1) the estimated amount sufficient to ensure a recovery of critical operations and services of the Clearing Agency; and (2) the estimated amount sufficient to ensure an orderly wind-down of critical operations and services of the Clearing Agency.¹⁰

Finally, the Operational Expense Capital Requirement of each Clearing Agency would be determined as the greatest of (i) six (6) times the average monthly operating expense for that Clearing Agency over the prior twelve (12) month period, and (ii) a prospective operating expense estimate based on forecasted expense data.

As stated above, each of these capital requirements would be determined on at least an annual basis, and the General Business Risk Capital Requirement of each Clearing Agency would be the greatest of the three calculations.

Finally, the Policy would describe how each Clearing Agency maintains, monitors and manages its LNA funded by equity held as its Total Capital Requirement. The Policy would

⁹ Under the Policy, business risks that make up a Clearing Agency's general business risk profile would include, for example, the risk that revenues decline or expenses grow, the operational risks of deficiencies in its systems or disruptions to processing from internal or external events, or investment risk of loss of financial resources.

¹⁰ Under the Policy, Treasury would make these calculations in consultation with and reference to the plans maintained by the Clearing Agencies that are developed by the Clearing Agencies in compliance with Rule 17Ad-22(e)(3)(ii). 17 CFR 240.17Ad-22(e)(3). Supra note 1. The Commission granted the Clearing Agencies a temporary exemption from compliance with the Recovery and Wind-down plan requirements of the Standards until December 31, 2017. See Securities Exchange Act Release No. 80378 (April 5, 2017) (File No. S7-03-14). Until such time as the Clearing Agencies have Recovery and Wind-down plans that are approved by their Boards in anticipation of compliance with Rule 17Ad-22(e)(3)(ii), the Recovery/Wind-down Capital Requirement of each Clearing Agency would be assumed to be zero. The General Business Risk Capital Requirement would therefore be the greater of the Risk-Based Capital Requirement and the Operating Expense Capital Requirement.

provide that each Clearing Agency hold LNA funded by equity in an amount to meet its calculated General Business Risk Capital Requirement in cash and cash equivalents, which are highly liquid securities or bank deposits. The Policy would also make clear that LNA funded by equity held to meet each Clearing Agency's General Business Risk Capital Requirement would be held in addition to LNA funded by equity as its Credit Risk Capital Requirement, and also in addition to resources held by that Clearing Agency in compliance with its regulatory requirements with respect to credit risk and liquidity risk, as described above.

The Policy would describe how Treasury would monitor and manage the LNA funded by equity held by each Clearing Agency so it continues to hold an amount equal to its Total Capital Requirement. Each Clearing Agency would manage its general business risks in order to maintain adequate LNA funded by equity in a number of ways, including (1) taking steps to maintain an appropriate and sustainable level of profitability; (2) maintaining the Buffer amount of LNA funded by equity in addition to its Total Capital Requirement; (3) taking steps to increase the amount of LNA funded by equity when necessary; and (4) maintaining a viable plan for the replenishment of equity through the Capital Replenishment Plan, described below. DTCC also maintains insurance policies that cover certain potential losses, which are another tool available to manage the general business risks of the Clearing Agencies, as described in the Policy.

Overview of Capital Replenishment Plan.

The Capital Replenishment Plan would describe the framework for each Clearing Agency to replenish LNA funded by equity through the utilization of one or more "replenishment tools," as described further below. The circumstances that trigger the Plan would include (i) when equity being held by a Clearing Agency is at or below an amount equal to that Clearing Agency's Total Capital Requirement, plus the equivalent of one (1) month of operating expenses of that Clearing Agency, as also determined pursuant to the Policy; and (ii) the Board of a Clearing Agency determines that the Plan should be implemented. The Plan would identify certain risks that, if realized, may cause these triggers to occur, including, for example, unexpected declines in revenue, disruptions to systems or processes that lead to large losses, or investment risks.

Treasury would be responsible for implementation of the Plan, in collaboration with other business areas, as necessary based on the replenishment tools that are chosen when the Plan is triggered. The Plan would outline the steps to be taken by Treasury once the Plan is triggered, which include identifying the total amount of equity that would be needed for the affected Clearing Agency to meet its Total Capital Requirement, analyzing that Clearing Agency's financial outlook, and selecting the appropriate replenishment tools to be utilized. The Board of the affected Clearing Agency, or such committee as may be delegated authority by that Board from time to time, would approve the proposal for implementation of the Plan once it is triggered, and review a report of each implementation of the Plan when it is complete. The Plan would also make clear that utilization of each replenishment tool would require involvement and coordination with other corporate functions and other policies and procedures, and must follow the process outlined in the operative documents related to each tool, as identified in the Plan.

The Plan would provide Treasury with the necessary flexibility and discretion, as appropriate, in implementation of the Plan, including the ability to determine, based on appropriate analysis, the sequence and combination of replenishment tools to be used in the event the Plan is triggered. The Plan would also set forth certain guiding principles, including prioritization of replenishment tools that have sufficient capacity at the time the Plan is implemented and are able to restore the affected Clearing Agency's LNA funded by equity to an appropriate level above its Total Capital Requirement in the shortest possible timeframe.

Finally, the Plan would identify the replenishment tools that may be utilized when the Plan is implemented and the estimated timeframe for executing each tool. These tools would serve as either (1) bridge financing, which would provide immediate financing, but should be considered only an initial step in implementation of the Plan; or (2) capital replenishment, which would provide the affected Clearing Agency with the required additional equity on a longer term basis. The replenishment tools would include either actions taken by DTCC, to raise capital, which would then be contributed to the affected Clearing Agency, subject to the guiding principles, or actions taken by the Clearing Agencies to raise capital.

With respect to those tools that involve actions taken by DTCC, the Plan would also set forth the conditions under which the Clearing Agencies would obtain capital through either a contribution or an intercompany loan. For example, intercompany loans would only be permitted from DTCC to an affected Clearing Agency if the Clearing Agency's equity exceeds its amount of LNA. Additionally, while some of the replenishment tools would involve the incurrence of debt by DTCC, such funds would be contributed to the affected Clearing Agency as either equity (as a capital contribution) or as LNA (as an intercompany loan).

Actions that may be taken by DTCC would include, for example, (1) contributing existing prefunded resources to the affected Clearing Agency; (2) borrowing under an existing line of credit to which DTCC is a party; (3) making a claim for insurance proceeds, when applicable; (4) authorizing, issuing and selling shares of common stock of DTCC to certain DTCC shareholders pursuant to the terms and restrictions set forth in the DTCC Certificate of Incorporation and the DTCC Fourth Amended and Restated Shareholders Agreement;¹¹ (5) the issuance or sale of preferred stock by DTCC; or (6) the sale or divestiture of assets or businesses. Actions each Clearing Agency can take to increase capital would include increasing fees for services, when appropriate, or decreasing expenses.

(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 Capital Policy and the

¹¹ See Securities Exchange Act Release No. 74142 (January 27, 2015), 80 FR 5188 (January 30, 2015); (File Nos. SR-FICC-2014-810; SR-NSCC-2014-811; SR-DTC-2014-812).

Capital Replenishment Plan are both consistent with Section 17A(b)(3)(F) of the Act¹² and Rule 17Ad-22(e)(15), under the Act,¹³ for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of the Clearing Agencies 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.¹⁴ Together, the Capital Policy and the Capital Replenishment Plan would be designed to ensure that each of the Clearing Agencies hold sufficient LNA funded by equity to cover potential general business losses so that it can continue the prompt and accurate clearance and settlement of securities transactions and can continue to assure the safeguarding of securities and funds which are in its custody or control or for which it is responsible if those losses materialize. Therefore, the Clearing Agencies believe the Capital Policy and the Capital Replenishment Plan are consistent with the requirements of Section 17A(b)(3)(F) of the Act.¹⁵

Rule 17Ad-22(e)(15), under the Act, requires the Clearing Agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to identify, monitor, and manage their respective general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that the Clearing Agencies can continue operations and services as a going concern if those losses materialize.¹⁶ The Clearing Agencies believe that the Capital Policy and the Capital Replenishment Plan are designed to meet requirements of Rule 17Ad-22(e)(15) for the reasons described below.

Rule 17Ad-22(e)(15)(i), under the Act, requires the Clearing Agencies to determine the amount of LNA funded by equity based upon its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.¹⁷ Pursuant to the Policy, each Clearing Agency's General Business Risk Capital Requirement, or the amount of LNA funded by equity determined by the Clearing Agency to be sufficient to cover potential general business losses, would be calculated as the greatest of (1) an amount calculated based on the Clearing Agency's general business risk profile, defined as its Risk-Based Capital Requirement, (2) an amount based on the time estimated to execute a recovery or orderly wind-down of the critical operations of the Clearing Agency, defined as its Recovery/Wind-down Capital Requirement, and (3) an amount based on an analysis of the Clearing Agency's estimated operating expenses for a six (6) month period, defined as its Operating Expense Capital Requirement. By providing that each Clearing

¹² 15 U.S.C. 78q-1(b)(3)(F).

¹³ 17 CFR 240.17Ad-22(e)(15). Supra note 1.

¹⁴ 15 U.S.C. 78q-1(b)(3)(F).

¹⁵ Id.

¹⁶ 17 CFR 240.17Ad-22(e)(15). Supra note 1.

¹⁷ 17 CFR 240.17Ad-22(e)(15)(i). Supra note 1.

Agency calculate its General Business Risk Capital Requirement as the greatest of these three calculated amounts, the Clearing Agencies believe the Capital Policy is consistent with Rule 17Ad-22(e)(15)(i).¹⁸

Rule 17Ad-22(e)(15)(ii), under the Act, requires, in part, that the Clearing Agencies hold LNA funded by equity equal to the greater of either (x) six months of the covered clearing agency's current operating expenses, or (y) the amount determined by the board of directors to be sufficient to ensure a recovery or orderly wind-down of critical operations and services of the covered clearing agency.¹⁹ As described above, the Policy would provide that each Clearing Agency hold LNA funded by equity in an amount that is the greatest of its Risk-Based Capital Requirement, its Recovery/Wind-down Capital Requirement, or its Operating Expense Capital Requirement. The Recovery/Wind-down Capital Requirement of each Clearing Agency would be defined in the Policy as an amount determined by that Clearing Agency's Board to be sufficient to ensure a recovery or orderly wind-down of critical operations and services of that Clearing Agency. Therefore, the Clearing Agencies believe the Capital Policy is consistent with Rule 17Ad-22(e)(15)(ii).²⁰

Rule 17Ad-22(e)(15)(ii) further requires, in part, that the LNA funded by equity held by the Clearing Agencies pursuant to Rule 17Ad-22(e)(15)(ii) shall be (A) in addition to resources held to cover participant defaults or other credits and liquidity risks; and (B) of high quality and sufficiently liquid to allow the covered clearing agency to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.²¹ The Capital Policy would identify the General Business Risk Capital Requirement of each Clearing Agency as a separate component of that Clearing Agency's Capital Framework, and would provide that LNA funded by equity held by each Clearing Agency as its General Business Risk Capital Requirement be held in addition to (1) LNA funded by equity held as that Clearing Agency's Credit Risk Capital Requirement; (2) resources held by that Clearing Agency in compliance with Rule 17Ad-22(e)(4) for credit risk (which resources are also held in addition to that Clearing Agency's Credit Risk Capital Requirement);²² and (3) resources held by that Clearing Agency in compliance with Rule 17Ad-22(e)(7) for liquidity risk.²³ Additionally, the Capital Policy would provide that the LNA funded by equity being held by each Clearing Agency to meet its Total Capital Requirement be held in cash and cash equivalents, which are

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Id.

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17 CFR 240.17Ad-22(e)(15)(ii). Supra note 1.

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Id.

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17 CFR 240.17Ad-22(e)(15)(ii)(A), (B). Supra note 1.

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17 CFR 240.17Ad-22(e)(4). Supra note 1.

23

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

highly liquid securities or bank deposits. Therefore, the Clearing Agencies believe the Capital Policy is consistent with Rule 17Ad-22(e)(15)(ii)(A) and (B).²⁴

Rule 17Ad-22(e)(15)(iii), under the Act, requires the Clearing Agencies to maintain a viable plan, approved by the Boards and updated at least annually, for raising additional equity should its equity fall close to or below the amount required under Rule 17Ad-22(e)(15)(ii).²⁵ As described above, the Capital Replenishment Plan would be a viable plan describing the procedures by which each of the Clearing Agencies would replenish capital, should its capital fall close to or below its Total Capital Requirement. Therefore, the Clearing Agencies believe the Capital Replenishment Plan is consistent with Rule 17Ad-22(e)(15)(iii).²⁶

4. Clearing Agency's Statement on Burden on Competition

Each of the Clearing Agencies believes that neither the Capital Policy nor the Capital Replenishment Plan would have any impact, or impose any burden, on competition because the proposed rule change would implement the Policy and the Plan as rules within the meaning of Rule 19b-4 under the Act.²⁷ The Policy and the Plan have been developed and documented in order to satisfy the regulatory requirements set forth above, and they generally reflect existing tools and existing internal procedures. Existing tools that would have a direct impact on the rights, responsibilities or obligations of members or participants of the Clearing Agencies are reflected in the Clearing Agencies' existing rules.²⁸ Accordingly, the Policy and the Plan themselves are documents intended to enhance the Clearing Agencies' internal management and regulatory compliance and therefore do not have any impact, or impose any burden, on competition.

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

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

²⁴ 17 CFR 240.17Ad-22(e)(15)(ii)(A), (B). Supra note 1.

²⁵ 17 CFR 240.17Ad-22(e)(15)(iii). Supra note 1.

²⁶ Id.

²⁷ 17 CFR 240.19b-4.

²⁸ Supra note 2.

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.²⁹

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

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) The Clearing Agencies request that the Commission find good cause to approve the proposed rule change prior to the thirtieth day after the date of publication of notice in the Federal Register, pursuant to Section 19(b)(2) of the Act.³⁰ The Clearing Agencies believe there is good cause to approve the proposed rule change prior to the thirtieth day after the publication of notice because approval of the proposed rule change ensures the Clearing Agencies will be able to hold sufficient LNA funded by equity to cover potential general business losses. Such funds are essential to ensure the Clearing Agencies can continue to provide the prompt and accurate clearance and settlement of securities transactions and can continue to assure the safeguarding of securities and funds which are in its custody or control or for which they are responsible if those losses materialize.

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

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

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

Not applicable.

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

Not applicable.

²⁹ 15 U.S.C. 78s(b)(2).

³⁰ Id.

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

Exhibit 5b – Capital Replenishment Plan. **Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 5b pursuant to 17 CFR 240.24b-2 being requested.**

EXHIBIT 1A

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

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change to Adopt the Clearing Agency Policy on Capital Requirements and the Clearing Agency Capital Replenishment Plan

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, National Securities Clearing Corporation (“NSCC”) 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 (1) the Clearing Agency Policy on Capital Requirements (“Capital Policy” or “Policy”) of NSCC and its affiliates, The Depository Trust Company (“DTC”) and Fixed Income Clearing Corporation (“FICC,” and together with NSCC and DTC, the “Clearing Agencies”); and (2) the Clearing Agency Capital Replenishment Plan (“Capital Replenishment Plan” or “Plan”) of the Clearing Agencies, both described below. The Capital Policy and the Capital Replenishment Plan would be

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

maintained by the Clearing Agencies in compliance with Rule 17Ad-22(e)(15), under the Act, as described below.³

Although the Clearing Agencies would consider the Capital Policy and the Capital Replenishment Plan to be rules, the proposed rule change does not require any changes to the Rules, By-laws and Organizational Certificate of DTC (“DTC Rules”), the Rulebook of the Government Securities Division of FICC (“GSD Rules”), the Clearing Rules of the Mortgage-Backed Securities Division of FICC (“MBSD Rules”), or the Rules & Procedures of NSCC (“NSCC Rules”), as the Policy and the Plan would be standalone documents.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)(15). 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 Capital Policy, which would set forth the manner in which each Clearing Agency identifies, monitors, and manages its general business risk with respect to the requirement to hold sufficient liquid net assets (“LNA”) funded by equity to cover potential general business losses so the Clearing Agency can continue operations and services as a going concern if such losses materialize. The amount of LNA funded by equity to be held by each of the Clearing Agencies for this purpose would be defined in the Policy as the General Business Risk Capital Requirement. The Capital Policy would also address how each Clearing Agency maintains a portion of retained earnings as LNA funded by equity as its Credit Risk Capital Requirement, in accordance with its rules and as a part of its management of credit risk.⁵

As described in greater detail below, the Capital Policy would describe how each Clearing Agency's General Business Risk Capital Requirement and Credit Risk Capital Requirement fit within the Clearing Agencies' Capital Framework. The Policy would describe how each Clearing Agency calculates the appropriate amount of LNA funded by equity to be held as its General Business Risk Capital Requirement. The Policy would also describe how each Clearing Agency maintains, monitors, and manages its total

⁵ LNA funded by equity held as the Clearing Agencies' Credit Risk Capital Requirement is held in addition to resources held by the Clearing Agencies for credit risk in compliance with Rule 17Ad-22(e)(4), and in addition to resources held by the Clearing Agencies for liquidity risk in compliance with Rule 17Ad-22(e)(7). 17 CFR 240.17Ad-22(e)(4), (7). Supra note 3.

amount of LNA funded by equity. Finally, the Policy provides for a viable plan for the replenishment of capital through the Capital Replenishment Plan.

The Clearing Agencies are also proposing to adopt the Capital Replenishment Plan as a viable plan for the replenishment of capital by each Clearing Agency, should its equity fall close to or below the amount being held as its Total Capital Requirement pursuant to the Capital Policy. As described in greater detail below, the Capital Replenishment Plan would identify the circumstances that would trigger implementation of the Plan; the roles, responsibilities, and guiding principles for implementation of the Plan; and an overview and description of each of the tools that may be used to replenish capital.

Both the Capital Policy and the Capital Replenishment Plan would be owned and managed by the Treasury group (“Treasury”) of the Clearing Agencies.⁶ The Boards, or such committees as may be delegated authority by the Boards from time to time pursuant to their charter, would review and approve the Capital Policy and the Capital Replenishment Plan on an annual basis.

Overview of Capital Policy.

The Capital Policy would describe how the General Business Risk Capital Requirement and the Credit Risk Capital Requirement of each Clearing Agency, as both are defined in the Policy and described below, fit within the Clearing Agencies’ Capital

⁶ 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. Treasury is a part of the Finance Department and is responsible for carrying out the roles and responsibilities described in the Capital Policy and Capital Replenishment Plan.

Framework. The Capital Framework would include the total amount of capital to be held by each of the Clearing Agencies in order to (1) comply with regulatory requirements for general business risk, as its General Business Risk Capital Requirement,⁷ and (2) maintain a portion of retained earnings to address credit risks, as its Credit Risk Capital Requirement, consistent with its rules.⁸ The Total Capital Requirement of each Clearing Agency would be calculated as the sum of its General Business Risk Capital Requirement and Credit Risk Capital Requirement.

In addition to the Total Capital Requirement, the Clearing Agencies' Capital Framework would also include an additional, discretionary amount of LNA funded by equity, referred to as a "Buffer." The amount held as Buffer would be periodically reassessed by Treasury, and would generally equal approximately four to six (4-6) months of operating expenses for the respective Clearing Agency based on various factors, including historical fluctuations of LNA and estimates of potential losses from general business risk.

Next, the Policy would describe how the Clearing Agencies each maintain a Credit Risk Capital Requirement, comprised of a portion of retained earnings, in accordance with their respective rules.⁹ Under the Policy, these resources would be maintained to address losses due to a participant default, and held in addition to the LNA funded by equity held by each of the Clearing Agencies as its General Business Risk Capital Requirement.

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

⁸ See DTC Rule 4, GSD Rule 4, MBSD Rule 4, and NSCC Rule 4 and Addendum E. Supra note 4.

⁹ Id.

The Policy would also describe how each Clearing Agency would determine the appropriate amount of LNA funded by equity to be held as its General Business Risk Capital Requirement, which would be an amount sufficient to cover potential general business losses so that the Clearing Agency can continue operations and services as a going concern if those losses materialize.¹⁰ Under the Policy, this amount would be calculated for each Clearing Agency as the greatest of three separate calculations – an amount based on that Clearing Agency’s general business risk profile (“Risk-Based Capital Requirement”), an amount based on the time estimated to execute a recovery or orderly wind-down of the critical operations of that Clearing Agency (“Recovery/Wind-down Capital Requirement”), and an amount based on an analysis of that Clearing Agency’s estimated operating expenses for a six (6) month period (“Operating Expense Capital Requirement”). On an annual basis, each of these three capital requirements would be measured, and the General Business Risk Capital Requirement for each Clearing Agency would be determined as the greatest of these calculations.

Under the Policy, the Risk-Based Capital Requirement of each Clearing Agency would be calculated by identifying the general business risk profile of that Clearing Agency through analysis of the Clearing Agency’s business performance, key performance indicators, and market environment and through comparison of financial performance versus the entity’s budget and forecast.¹¹ Treasury would then calculate the

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

¹¹ Under the Policy, business risks that make up a Clearing Agency’s general business risk profile would include, for example, the risk that revenues decline or expenses grow, the operational risks of deficiencies in its systems or disruptions to processing from internal or external events, or investment risk of loss of financial resources.

amount necessary to cover those potential general business losses so the Clearing Agency can continue operations and services if those losses materialize. The sum of these amounts would constitute that Clearing Agency's Risk-Based Capital Requirement.

The Recovery/Wind-down Capital Requirement of each Clearing Agency would be determined by that Clearing Agency's Board as the amount it deems to be sufficient to ensure a recovery or wind-down of critical operations and services of that Clearing Agency. On an annual basis, and in order to assist each Board in making its determination, Treasury would calculate the greatest of (1) the estimated amount sufficient to ensure a recovery of critical operations and services of the Clearing Agency; and (2) the estimated amount sufficient to ensure an orderly wind-down of critical operations and services of the Clearing Agency.¹²

Finally, the Operational Expense Capital Requirement of each Clearing Agency would be determined as the greatest of (i) six (6) times the average monthly operating expense for that Clearing Agency over the prior twelve (12) month period, and (ii) a prospective operating expense estimate based on forecasted expense data.

¹² Under the Policy, Treasury would make these calculations in consultation with and reference to the plans maintained by the Clearing Agencies that are developed by the Clearing Agencies in compliance with Rule 17Ad-22(e)(3)(ii). 17 CFR 240.17Ad-22(e)(3). Supra note 3. The Commission granted the Clearing Agencies a temporary exemption from compliance with the Recovery and Wind-down plan requirements of the Standards until December 31, 2017. See Securities Exchange Act Release No. 80378 (April 5, 2017) (File No. S7-03-14). Until such time as the Clearing Agencies have Recovery and Wind-down plans that are approved by their Boards in anticipation of compliance with Rule 17Ad-22(e)(3)(ii), the Recovery/Wind-down Capital Requirement of each Clearing Agency would be assumed to be zero. The General Business Risk Capital Requirement would therefore be the greater of the Risk-Based Capital Requirement and the Operating Expense Capital Requirement.

As stated above, each of these capital requirements would be determined on at least an annual basis, and the General Business Risk Capital Requirement of each Clearing Agency would be the greatest of the three calculations.

Finally, the Policy would describe how each Clearing Agency maintains, monitors and manages its LNA funded by equity held as its Total Capital Requirement. The Policy would provide that each Clearing Agency hold LNA funded by equity in an amount to meet its calculated General Business Risk Capital Requirement in cash and cash equivalents, which are highly liquid securities or bank deposits. The Policy would also make clear that LNA funded by equity held to meet each Clearing Agency's General Business Risk Capital Requirement would be held in addition to LNA funded by equity as its Credit Risk Capital Requirement, and also in addition to resources held by that Clearing Agency in compliance with its regulatory requirements with respect to credit risk and liquidity risk, as described above.

The Policy would describe how Treasury would monitor and manage the LNA funded by equity held by each Clearing Agency so it continues to hold an amount equal to its Total Capital Requirement. Each Clearing Agency would manage its general business risks in order to maintain adequate LNA funded by equity in a number of ways, including (1) taking steps to maintain an appropriate and sustainable level of profitability; (2) maintaining the Buffer amount of LNA funded by equity in addition to its Total Capital Requirement; (3) taking steps to increase the amount of LNA funded by equity when necessary; and (4) maintaining a viable plan for the replenishment of equity through the Capital Replenishment Plan, described below. DTCC also maintains

insurance policies that cover certain potential losses, which are another tool available to manage the general business risks of the Clearing Agencies, as described in the Policy.

Overview of Capital Replenishment Plan.

The Capital Replenishment Plan would describe the framework for each Clearing Agency to replenish LNA funded by equity through the utilization of one or more “replenishment tools,” as described further below. The circumstances that trigger the Plan would include (i) when equity being held by a Clearing Agency is at or below an amount equal to that Clearing Agency’s Total Capital Requirement, plus the equivalent of one (1) month of operating expenses of that Clearing Agency, as also determined pursuant to the Policy; and (ii) the Board of a Clearing Agency determines that the Plan should be implemented. The Plan would identify certain risks that, if realized, may cause these triggers to occur, including, for example, unexpected declines in revenue, disruptions to systems or processes that lead to large losses, or investment risks.

Treasury would be responsible for implementation of the Plan, in collaboration with other business areas, as necessary based on the replenishment tools that are chosen when the Plan is triggered. The Plan would outline the steps to be taken by Treasury once the Plan is triggered, which include identifying the total amount of equity that would be needed for the affected Clearing Agency to meet its Total Capital Requirement, analyzing that Clearing Agency’s financial outlook, and selecting the appropriate replenishment tools to be utilized. The Board of the affected Clearing Agency, or such committee as may be delegated authority by that Board from time to time, would approve the proposal for implementation of the Plan once it is triggered, and review a report of each implementation of the Plan when it is complete. The Plan would also make clear

that utilization of each replenishment tool would require involvement and coordination with other corporate functions and other policies and procedures, and must follow the process outlined in the operative documents related to each tool, as identified in the Plan.

The Plan would provide Treasury with the necessary flexibility and discretion, as appropriate, in implementation of the Plan, including the ability to determine, based on appropriate analysis, the sequence and combination of replenishment tools to be used in the event the Plan is triggered. The Plan would also set forth certain guiding principles, including prioritization of replenishment tools that have sufficient capacity at the time the Plan is implemented and are able to restore the affected Clearing Agency's LNA funded by equity to an appropriate level above its Total Capital Requirement in the shortest possible timeframe.

Finally, the Plan would identify the replenishment tools that may be utilized when the Plan is implemented and the estimated timeframe for executing each tool. These tools would serve as either (1) bridge financing, which would provide immediate financing, but should be considered only an initial step in implementation of the Plan; or (2) capital replenishment, which would provide the affected Clearing Agency with the required additional equity on a longer term basis. The replenishment tools would include either actions taken by DTCC to raise capital, which would then be contributed to the affected Clearing Agency, subject to the guiding principles, or actions taken by the Clearing Agencies to raise capital.

With respect to those tools that involve actions taken by DTCC, the Plan would also set forth the conditions under which the Clearing Agencies would obtain capital through either a contribution or an intercompany loan. For example, intercompany loans

would only be permitted from DTCC to an affected Clearing Agency if the Clearing Agency's equity exceeds its amount of LNA. Additionally, while some of the replenishment tools would involve the incurrence of debt by DTCC, such funds would be contributed to the affected Clearing Agency as either equity (as a capital contribution) or as LNA (as an intercompany loan).

Actions that may be taken by DTCC would include, for example, (1) contributing existing prefunded resources to the affected Clearing Agency; (2) borrowing under an existing line of credit to which DTCC is a party; (3) making a claim for insurance proceeds, when applicable; (4) authorizing, issuing and selling shares of common stock of DTCC to certain DTCC shareholders pursuant to the terms and restrictions set forth in the DTCC Certificate of Incorporation and the DTCC Fourth Amended and Restated Shareholders Agreement;¹³ (5) the issuance or sale of preferred stock by DTCC; or (6) the sale or divestiture of assets or businesses. Actions each Clearing Agency can take to increase capital would include increasing fees for services, when appropriate, or decreasing expenses.

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 Capital

¹³ See Securities Exchange Act Release No. 74142 (January 27, 2015), 80 FR 5188 (January 30, 2015); (File Nos. SR-FICC-2014-810; SR-NSCC-2014-811; SR-DTC-2014-812).

Policy and the Capital Replenishment Plan are both consistent with Section 17A(b)(3)(F) of the Act¹⁴ and Rule 17Ad-22(e)(15), under the Act,¹⁵ for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of the Clearing Agencies 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 Together, the Capital Policy and the Capital Replenishment Plan would be designed to ensure that each of the Clearing Agencies hold sufficient LNA funded by equity to cover potential general business losses so that it can continue the prompt and accurate clearance and settlement of securities transactions and can continue to assure the safeguarding of securities and funds which are in its custody or control or for which it is responsible if those losses materialize. Therefore, the Clearing Agencies believe the Capital Policy and the Capital Replenishment Plan are consistent with the requirements of Section 17A(b)(3)(F) of the Act.¹⁷

Rule 17Ad-22(e)(15), under the Act, requires the Clearing Agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to identify, monitor, and manage their respective general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that the Clearing Agencies can continue operations and services as a going concern if those losses

¹⁴ 15 U.S.C. 78q-1(b)(3)(F).

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

¹⁶ 15 U.S.C. 78q-1(b)(3)(F).

¹⁷ Id.

materialize.¹⁸ The Clearing Agencies believe that the Capital Policy and the Capital Replenishment Plan are designed to meet requirements of Rule 17Ad-22(e)(15) for the reasons described below.

Rule 17Ad-22(e)(15)(i), under the Act, requires the Clearing Agencies to determine the amount of LNA funded by equity based upon its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.¹⁹ Pursuant to the Policy, each Clearing Agency's General Business Risk Capital Requirement, or the amount of LNA funded by equity determined by the Clearing Agency to be sufficient to cover potential general business losses, would be calculated as the greatest of (1) an amount calculated based on the Clearing Agency's general business risk profile, defined as its Risk-Based Capital Requirement, (2) an amount based on the time estimated to execute a recovery or orderly wind-down of the critical operations of the Clearing Agency, defined as its Recovery/Wind-down Capital Requirement, and (3) an amount based on an analysis of the Clearing Agency's estimated operating expenses for a six (6) month period, defined as its Operating Expense Capital Requirement. By providing that each Clearing Agency calculate its General Business Risk Capital Requirement as the greatest of these three calculated amounts, the Clearing Agencies believe the Capital Policy is consistent with Rule 17Ad-22(e)(15)(i).²⁰

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

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

²⁰ Id.

Rule 17Ad-22(e)(15)(ii), under the Act, requires, in part, that the Clearing Agencies hold LNA funded by equity equal to the greater of either (x) six months of the covered clearing agency's current operating expenses, or (y) the amount determined by the board of directors to be sufficient to ensure a recovery or orderly wind-down of critical operations and services of the covered clearing agency.²¹ As described above, the Policy would provide that each Clearing Agency hold LNA funded by equity in an amount that is the greatest of its Risk-Based Capital Requirement, its Recovery/Wind-down Capital Requirement, or its Operating Expense Capital Requirement. The Recovery/Wind-down Capital Requirement of each Clearing Agency would be defined in the Policy as an amount determined by that Clearing Agency's Board to be sufficient to ensure a recovery or orderly wind-down of critical operations and services of that Clearing Agency. Therefore, the Clearing Agencies believe the Capital Policy is consistent with Rule 17Ad-22(e)(15)(ii).²²

Rule 17Ad-22(e)(15)(ii) further requires, in part, that the LNA funded by equity held by the Clearing Agencies pursuant to Rule 17Ad-22(e)(15)(ii) shall be (A) in addition to resources held to cover participant defaults or other credits and liquidity risks; and (B) of high quality and sufficiently liquid to allow the covered clearing agency to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.²³ The Capital Policy would identify the General Business Risk Capital Requirement of each Clearing Agency as a separate component of that

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

²² Id.

²³ 17 CFR 240.17Ad-22(e)(15)(ii)(A), (B). Supra note 3.

Clearing Agency's Capital Framework, and would provide that LNA funded by equity held by each Clearing Agency as its General Business Risk Capital Requirement be held in addition to (1) LNA funded by equity held as that Clearing Agency's Credit Risk Capital Requirement; (2) resources held by that Clearing Agency in compliance with Rule 17Ad-22(e)(4) for credit risk (which resources are also held in addition to that Clearing Agency's Credit Risk Capital Requirement);²⁴ and (3) resources held by that Clearing Agency in compliance with Rule 17Ad-22(e)(7) for liquidity risk.²⁵

Additionally, the Capital Policy would provide that the LNA funded by equity being held by each Clearing Agency to meet its Total Capital Requirement be held in cash and cash equivalents, which are highly liquid securities or bank deposits. Therefore, the Clearing Agencies believe the Capital Policy is consistent with Rule 17Ad-22(e)(15)(ii)(A) and (B).²⁶

Rule 17Ad-22(e)(15)(iii), under the Act, requires the Clearing Agencies to maintain a viable plan, approved by the Boards and updated at least annually, for raising additional equity should its equity fall close to or below the amount required under Rule 17Ad-22(e)(15)(ii).²⁷ As described above, the Capital Replenishment Plan would be a viable plan describing the procedures by which each of the Clearing Agencies would replenish capital, should its capital fall close to or below its Total Capital Requirement.

²⁴ 17 CFR 240.17Ad-22(e)(4). Supra note 3.

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

²⁶ 17 CFR 240.17Ad-22(e)(15)(ii)(A), (B). Supra note 3.

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

Therefore, the Clearing Agencies believe the Capital Replenishment Plan is consistent with Rule 17Ad-22(e)(15)(iii).²⁸

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

Each of the Clearing Agencies believes that neither the Capital Policy nor the Capital Replenishment Plan would have any impact, or impose any burden, on competition because the proposed rule change would implement the Policy and the Plan as rules within the meaning of Rule 19b-4 under the Act.²⁹ The Policy and the Plan have been developed and documented in order to satisfy the regulatory requirements set forth above, and they generally reflect existing tools and existing internal procedures. Existing tools that would have a direct impact on the rights, responsibilities or obligations of members or participants of the Clearing Agencies are reflected in the Clearing Agencies' existing rules.³⁰ Accordingly, the Policy and the Plan themselves are documents intended to enhance the Clearing Agencies' internal management and regulatory compliance and therefore do not have any impact, or impose any burden, on competition.

(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.

²⁸ Id.

²⁹ 17 CFR 240.19b-4.

³⁰ Supra note 4.

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-NSCC-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-NSCC-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 NSCC 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-NSCC-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.³¹

Secretary

³¹ 17 CFR 200.30-3(a)(12).

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