

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 53	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2017 - * 012	Amendment No. (req. for Amendments *)
Filing by National Securities Clearing Corporation Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934	
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>		Section 3C(b)(2) * <input type="checkbox"/>	
Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>			
<b>Description</b>				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
<input type="text" value="To adopt the Clearing Agency Risk Management Framework"/>				
<b>Contact Information</b>				
Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.				
First Name *	<input type="text" value="Jacqueline"/>	Last Name *	<input type="text" value="Chezar"/>	
Title *	<input type="text" value="Executive Director and Associate General Counsel"/>			
E-mail *	<input type="text" value="jfarinella@dtcc.com"/>			
Telephone *	<input type="text" value="(212) 855-3216"/>	Fax	<input type="text"/>	
<b>Signature</b>				
Pursuant to the requirements of the Securities Exchange Act of 1934,				
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.				
(Title *)				
Date	<input type="text" value="07/14/2017"/>	<input type="text" value="Managing Director and Deputy General Counsel"/>		
By	<input type="text" value="Nikki Poulos"/>	<input type="text"/>		
(Name *)				
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.				
<input type="button" value="npoulos@dtcc.com"/>				

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 Risk Management Framework (“Framework”) of National Securities Clearing Corporation (“NSCC”) and its affiliates, The Depository Trust Company (“DTC”) and Fixed Income Clearing Corporation (“FICC,” and together with NSCC and DTC, the “Clearing Agencies”), described below. The Framework would apply to both of FICC’s divisions, the Government Securities Division (“GSD”) and the Mortgage-Backed Securities Division (“MBSD”). The Framework would be maintained by the Clearing Agencies to support their compliance with Rules 17Ad-22(e)(1), (e)(3), (e)(20), and (e)(21) under the Securities Exchange Act of 1934, as amended (“Act”), as described below.<sup>1</sup>

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,” and together with the DTC Rules, GSD Rules and MBSD Rules, the “Clearing Agencies’ Rules”), as the Framework would be a standalone document.<sup>2</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 February 15, 2017.

## **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 describe the manner in which each of the Clearing Agencies (i) comprehensively manages legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by it (“Key Clearing Agency Risks”); (ii) maintains a well-founded, clear, transparent and enforceable legal basis for each aspect of its activities; (iii) identifies, monitors, and manages risks related to links it establishes with one or more clearing agencies, financial market utilities,

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<sup>1</sup> 17 CFR 240.17Ad-22(e)(1), (e)(3), (e)(20), and (e)(21).

<sup>2</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>.

or trading markets; and (iv) meets the requirements of its participants<sup>3</sup> and the markets it serves efficiently and effectively. The Framework would be maintained by the General Counsel's Office ("GCO") of DTCC.<sup>4</sup> The Framework would provide that GCO, in coordination with all departments responsible for the processes described in the Framework, reviews the Framework at least annually.

The processes described in the Framework, and any policies, procedures or other documents created to support those processes, may be owned by other departments within DTCC, on behalf of each Clearing Agency. These processes, and any documents created to support those processes, would support the Clearing Agencies' compliance with the requirements of Rules 17Ad-22(e)(1), (e)(3), (e)(20), and (e)(21), and the Clearing Agencies may develop other processes or adopt other documents that further support these requirements and are not described in the Framework.<sup>5</sup>

#### *Comprehensive Management of Key Clearing Agency Risks*

The Framework would state that the Boards have delegated to DTCC management, on behalf of the Clearing Agencies, the responsibility for identifying, assessing, measuring, monitoring, mitigating and reporting risks through a process of developing individual risk tolerance statements for identified risks. The Framework would describe how these risk tolerance statements set out applicable risk controls and other measures used to manage risks, and how residual risks may be identified through this process for either further management or "acceptance" (which follows a defined escalation and approval process). The Framework would also state that DTCC management, on behalf of the Clearing Agencies, is responsible for the day-to-day management of those residual risks. Finally, the Framework would describe the governance around maintenance of those risk tolerance statements, which are reviewed and approved by a management committee and by the Risk Committee of the Boards at least annually, and are also provided to the Boards for their review and approval at least annually.

The Framework would describe how the Clearing Agencies employ a "Three Lines of Defense" approach as a sound risk management framework for comprehensively managing Key Clearing Agency Risks in order to support their compliance with the requirements of Rule 17Ad-

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<sup>3</sup> FICC and NSCC refer to their participants as "Members," while DTC refers to its participants as "Participants." These terms are defined in the Clearing Agencies' Rules. In this filing, as well as in the Framework, "participant" or "participants" refers to both the Members of FICC and NSCC and the Participants of DTC.

<sup>4</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.

<sup>5</sup> 17 CFR 240.17Ad-22(e)(1), (e)(3), (e)(20), and (e)(21).

22(e)(3). The Framework would describe the roles of personnel and business units in this risk management approach, which includes (1) a first line of defense comprised of the various business lines and functional units that support the products and services offered by the Clearing Agencies (collectively, “Clearing Agency Business/Support Areas”); (2) a second line of defense comprised of control functions that support the Clearing Agencies, including the organization’s legal, privacy and compliance areas, as well as the DTCC Risk Department, which is specifically dedicated to risk management concerns (collectively, “Clearing Agency Control Functions”); and (3) a third line of defense, which is performed by DTCC Internal Audit.

The Framework would identify the roles of each line of defense. The Framework would state that, as the first line of defense, each Clearing Agency Business/Support Area would, for example, identify Key Clearing Agency Risks applicable to its function, determine the best way to mitigate such risks, self-test internal controls, and create and implement actions plans for risk mitigation. The Framework would state that the role of the second line of defense includes, for example, working with the Clearing Agency Business/Support Areas on efforts to mitigate Key Clearing Agency Risks and providing tools to those groups to enable them to analyze, monitor, and proactively manage those risks. Finally, the Framework would identify the role of DTCC Internal Audit as the third line of defense as including, for example, directing its own resources to review and test key controls that help mitigate significant Key Clearing Agency Risks, then reporting on the results of that testing.

In connection with a description of the second and third lines of defense, the Framework would describe how personnel within the DTCC Risk Department and DTCC Internal Audit are provided with sufficient authority, resources, independence from management, and access to the Boards. The Framework would provide that the DTCC Risk Department and DTCC Internal Audit are functionally independent from all other Clearing Agency Business/Support Areas. The Framework would also describe how such personnel have a direct reporting line to, and oversight by, the Risk Committee of the Boards and the Audit Committee of the Boards, respectively, which is supported by the charters of these committees.

The Framework would provide that the Clearing Agencies maintain a policy to govern the requirements for establishing, managing, and assessing the performance of internal committees and councils, including a set of senior management committees that provide oversight of the Three Lines of Defense approach to management of Key Clearing Agency Risks, as well as other aspects of the Clearing Agencies’ risk management. The Framework would also describe the process by which the Clearing Agencies maintain risk management policies, procedures, Clearing Agencies’ Rules, frameworks and other documents designed to identify, measure, monitor and manage Key Clearing Agency Risks. The Framework would describe policies maintained by the Clearing Agencies that (1) govern the steps taken to meet their regulatory requirements related to proposed rule change and advance notice filings pursuant to Section 19(b)(1) of the Act,<sup>6</sup> and the rules thereunder, and Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, entitled the Payment,

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<sup>6</sup> 15 U.S.C. 78s(b)(1).

Clearing, and Settlement Supervision Act of 2010,<sup>7</sup> and the rules thereunder (collectively, “Filing Requirements”); and (2) establish a set of standards and holistic approach for creating and managing risk management policies, procedures, Clearing Agencies’ Rules, frameworks and other documents, which include required, periodic reviews as well as the governance for approval of such documents (“Document Standards”). The Framework would provide that, with respect to those documents that address Key Clearing Agency Risks, the Document Standards require annual approval by the Boards.

The Framework would describe certain documents that are subject to the respective policies governing the Filing Requirements and the Document Standards, described above. For example, the Framework would describe how the Clearing Agencies maintain the Clearing Agencies’ Rules, which support the Clearing Agencies’ ability to provide for a well-founded, clear, transparent, and enforceable legal basis for each aspect of their activities in all relevant jurisdictions. Maintenance of the Clearing Agencies’ Rules is supported by the policy governing the Filing Requirements and the Document Standards, described above. The Framework would state that the Clearing Agencies’ Rules establish the membership onboarding process of the Clearing Agencies, which supports the enforceable legal basis for the Clearing Agencies’ Rules. The Framework would also state that the Clearing Agencies may adopt and maintain other risk management frameworks, separate from the Framework, that address, in whole or in part, the management of other Key Clearing Agency Risks, including, for example, the management of operational, liquidity and market risks.

#### *Information and Incentives for Participant Management of Risks*

The Framework would describe how the Clearing Agencies support their compliance with Rule 17Ad-22(e)(3) by providing their respective participants with information and incentives to enable them, and, through them, their customers, to monitor, manage and contain the risks they pose to the respective Clearing Agencies. The Framework would identify some of the sources of the information that is made available to participants, including, for example, (1) materials on the DTCC website, such as the Clearing Agencies’ Rules, user guides and training courses, and regularly updated disclosures made pursuant to the guidelines published by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions;<sup>8</sup> and (2) reports provided to Clearing Agency participants regarding their margin and liquidity requirements and their transaction volumes and values, as applicable.

The Framework would also describe some of the incentives used by the Clearing Agencies to enable their participants to monitor, manage and contain risks they pose to the

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<sup>7</sup> 12 U.S.C. 5465(e)(1).

<sup>8</sup> See Principles for financial market infrastructures, issued by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions (April 2012), available at <http://www.bis.org/publ/cpss101a.pdf>.

Clearing Agencies, including, for example, (1) daily margin requirements, pursuant to the Clearing Agencies' Rules, which are calculated in close correlation to the risk each participant poses to the relevant Clearing Agency; and (2) other tools within the Clearing Agencies' Rules that enable the Clearing Agencies to enforce their and their participants' respective rights and obligations under those rules.

*Management of Risks Related to Material Interdependencies and External Links*

The Framework would describe some of the ways in which the Clearing Agencies regularly review the material risks they bear from and pose to other entities as a result of external links and material interdependencies. The Framework would identify some of the Clearing Agencies' external links that create material interdependencies between the Clearing Agencies and other entities party to such link, which may include, for example, links with their participants, settling banks, investment counterparties and liquidity providers, and links with vendors and other service providers. With respect to these links, the Framework would describe how the Clearing Agencies review and monitor any resulting risks, which is driven by the nature of the relationship.

For example, risks related to the Clearing Agencies' link to their respective participants and settling banks, as applicable, are addressed through tools found within the Clearing Agencies' Rules, as these entities are bound by the Rules.

Additionally, risks arising from links to vendors are identified, assessed, controlled, and monitored through a comprehensive review and vetting process. The Framework would describe how a risk-based approach is employed to assess the need and level of due diligence activities associated with the evaluation of new vendors before a contractual relationship is established and with the re-evaluation of existing vendors. The Framework would state that this process involves the review of certain information related to a proposed vendor relationship, which should focus on confidentiality, integrity, availability and recoverability related to that relationship. The Framework would also describe how risk related to existing vendor relationships is reviewed periodically, throughout the lifecycle of the relationship. The management of vendor relationships through the process that would be described in the Framework would also support the Clearing Agencies' maintenance of clear, understandable contracts that are consistent with relevant laws and regulations.

The Framework would describe the Clearing Agencies' management and monitoring of systemic risks, and how the Clearing Agencies utilize a series of comprehensive reviews that include input from a cross-functional group to identify, monitor and manage risks related to all Clearing Agency external links, in addition to links that create material interdependencies.

*Scope of Services Responsive to Market Needs*

The Framework would describe some of the ways in which the Clearing Agencies are efficient and effective in meeting the requirements of their participants and the markets they serve. The Framework would describe the Clearing Agencies' structured approach for the implementation of new initiatives, which includes conducting a comprehensive risk assessment of new initiatives that are in scope of this approach. These reviews address, among other

matters, compliance with applicable laws, regulations and standards, and, in this way, support the Clearing Agencies' ability to demonstrate a well-founded legal basis for the activities to be conducted in connection with new initiatives.

The Framework would also describe the Clearing Agencies' role in industry-wide strategic initiatives through participation on industry working groups and through the development and publication of concept papers. The Framework would describe how the Clearing Agencies use periodic surveys and employ product-aligned customer service representatives to ensure clients receive the right level of responsiveness in order to support their needs. The Framework would describe how the Clearing Agencies have established a process for escalating and responding to certain customer complaints. The Framework would also describe the Clearing Agencies' Core Balanced Business Scorecard, which is used by the Clearing Agencies to review and track the effectiveness of their operations, information technology service levels, financial performance, human capital as well as their participants' experience.

#### *Recovery and Orderly Wind-Down*

The Framework would provide that the Clearing Agencies maintain policies and procedures to govern the development of plans for recovery or orderly wind-down. Such documents would define the roles and responsibilities of relevant business units in the development and documentation of the plans and would outline the general content of the plans.

#### (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> and the subsections cited below of Rules 17Ad-22(e)(1), (e)(3), (e)(20), and (e)(21),<sup>10</sup> each promulgated under the Act, for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a registered clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.<sup>11</sup> As described above, the Framework would describe some of the ways the Clearing Agencies comprehensively manage Key Clearing Agency Risks, which include legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the Clearing Agencies. For example, the Framework would describe how the Clearing Agencies utilize a Three Lines of Defense approach to assessing, measuring, monitoring, mitigating, and reporting those risks, and

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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)(1), (e)(3), (e)(20), and (e)(21).

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

would identify the roles and responsibilities of each line of defense within that approach. The Framework would also describe other risk management activities, including, for example the establishment and maintenance of certain management committees that would provide oversight to the Clearing Agencies' businesses and related risk management.

By describing some of the ways the Clearing Agencies manage their Key Clearing Agency Risks, the Framework would serve as a basis for the processes, policies, procedures and other documents that the Clearing Agencies may develop to facilitate those risk management activities. The activities that would be described within the Framework, and the policies, procedures or other documents that would be reasonably and fairly implied, thereby collectively allow the Clearing Agencies to continue the prompt and accurate clearance and settlement of securities and assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible notwithstanding the risks that arise in or are borne by the Clearing Agencies. Therefore, the Clearing Agencies believe the Framework is consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>12</sup>

Rule 17Ad-22(e)(1) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to, provide for a well-founded, clear, transparent, and enforceable legal basis for each aspect of its activities in all relevant jurisdictions.<sup>13</sup> The Framework would describe how the Clearing Agencies maintain the Clearing Agencies' Rules, which are the key legal basis for each of the Clearing Agencies' respective activities described therein. The Clearing Agencies' Rules are incorporated by reference into participants' membership agreements, and, therefore, constitute an enforceable contract governing the rights and obligations of the Clearing Agencies and those participants. The Framework would describe how the Clearing Agencies' Rules are published on the DTCC website, and how the Clearing Agencies adhere to the Filing Requirements, which provide a clear, transparent and enforceable legal framework under which the Clearing Agencies' Rules are adopted and enforced. Through their compliance with the Filing Requirements, as would be described in the Framework, the Clearing Agencies articulate the legal basis for proposed changes to their activities, as described in the Clearing Agencies' Rules, in a clear and understandable way.

The Framework would also describe how the Clearing Agencies review and assess risk related to their contractual arrangements with vendors, service providers and other external parties with which the Clearing Agencies may establish links. The Framework would also describe the process by which the Clearing Agencies review new initiatives prior to implementation, which include a review of the legal risks that may be posed by those initiatives. For these reasons, the processes described in the Framework allow the Clearing Agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for a well-founded, clear, transparent, and enforceable legal basis for each aspect of its

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<sup>12</sup> Id.

<sup>13</sup> 17 CFR 240.17Ad-22(e)(1).

activities in all relevant jurisdictions. Therefore, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(1).<sup>14</sup>

The Clearing Agencies believe that the Framework is consistent with the requirements of the following subsections of Rule 17Ad-22(e)(3), cited below, for the reasons described below.<sup>15</sup>

Rule 17Ad-22(e)(3)(i) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which includes risk management policies, procedures, and systems designed to identify, measure, monitor, and manage the range of risks that arise in or are borne by the covered clearing agency, that are subject to review on a specified periodic basis and approved by the board of directors annually.<sup>16</sup> The Framework would describe how the Clearing Agencies maintain comprehensive policies, procedures and other documents, including, for example, the Framework and certain other risk management frameworks, separate and apart from the Framework, which are designed to identify, measure, monitor and manage Key Clearing Agency Risks. The Framework would state that the Framework is reviewed least annually. The Document Standards, which would be described in the Framework, set a timeframe for the periodic review of these documents, and would, with respect to those documents that address Key Clearing Agency Risks, require annual approval by the Boards. By describing the process for the establishment, implementation, maintenance and enforcement of these risk management documents, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(3)(i).<sup>17</sup>

Rule 17Ad-22(e)(3)(ii) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which includes plans for the recovery and orderly wind-down of the covered clearing agency necessitated by credit losses, liquidity shortfalls, losses from general business risk, or any other losses.<sup>18</sup> The Framework would describe how the Clearing Agencies maintain policies and procedures that govern the development of plans for the recovery and orderly wind-down of the Clearing Agencies, and would provide that these policies and procedures would define the roles and responsibilities of relevant business units in the development and documentation of those plans. Therefore, by describing the policies and

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<sup>14</sup> Id.

<sup>15</sup> 17 CFR 240.17Ad-22(e)(3).

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

<sup>17</sup> Id.

<sup>18</sup> 17 CFR 240.17Ad-22(e)(3)(ii).

procedures maintained by the Clearing Agencies in order to prepare appropriate plans for the recovery and orderly wind-down of the Clearing Agencies, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(3)(ii).<sup>19</sup>

Rule 17Ad-22(e)(3)(iii) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which provides risk management and internal audit personnel with sufficient authority, resources, independence from management, and access to the board of directors.<sup>20</sup> Rule 17Ad-22(e)(3)(iv) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which provides risk management and internal audit personnel with a direct reporting line to, and oversight by, a risk management committee and an independent audit committee of the board of directors, respectively.<sup>21</sup>

The Framework would describe how the Clearing Agencies use a Three Lines of Defense approach to the management of Key Clearing Agency Risks. In connection with this approach, the Framework would describe the roles of risk management and internal audit personnel as the second and third lines of defense. The Framework would describe how both the DTCC Risk Department and DTCC Internal Audit are functionally independent from all other Clearing Agency Business/Support Areas. The Framework would also describe how the senior management within both groups report directly to appropriate committees of the Boards, and how, through this reporting line, the groups have access to the Boards, as necessary. Therefore, through this description of the DTCC Risk Department's and DTCC Internal Audit's roles and functions, in connection with the Three Lines of Defense approach to risk management, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(3)(iii) and (e)(3)(iv).<sup>22</sup>

Rule 17Ad-22(e)(20) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to identify, monitor, and manage risks related to any link the covered clearing agency establishes with one or more other clearing agencies, financial market utilities, or trading markets.<sup>23</sup> The Framework would describe how the Clearing Agencies review both proposed and existing links

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<sup>19</sup> Id.

<sup>20</sup> 17 CFR 240.17Ad-22(e)(3)(iii).

<sup>21</sup> 17 CFR 240.17Ad-22(e)(3)(iv).

<sup>22</sup> Id.

<sup>23</sup> 17 CFR 240.17Ad-22(e)(20).

with other entities, including those links that may result in material interdependencies. For example, the Framework would describe some of the ways the Clearing Agencies manage risks related to their links with, as applicable, participants, settling banks, investment counterparties and liquidity providers, vendors and service providers, and would also describe how the Clearing Agencies identify and address risks that have the potential of creating systemic impact. With respect to links with vendors and service providers, the Framework would describe how the Clearing Agencies, through the establishment, implementation, maintenance and enforcement of written policies and procedures, apply a comprehensive vendor review and vetting process that includes reviews of credit, operational, legal and other risks that may arise from that relationship. Therefore, by describing the various ways the Clearing Agencies identify and address risks related to links with other entities, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(20).<sup>24</sup>

Rule 17Ad-22(e)(21) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to be efficient and effective in meeting the requirements of its participants and the markets it serves, and have the covered clearing agency's management regularly review the efficiency and effectiveness of its (i) clearing and settlement arrangements; (ii) operating structure, including risk management policies, procedures, and systems; (iii) scope of products cleared or settled; and (iv) use of technology and communication procedures.<sup>25</sup> The Framework would describe some of the ways in which the Clearing Agencies review the efficiency and effectiveness of their businesses and operations. For example, the Framework would describe how the Clearing Agencies employ a structured approach to the pre-implementation reviews of new initiatives, including initiatives related to their clearing and settlement arrangements, scope of products cleared or settled, and use of technology and communication procedures. The Framework would also describe the Clearing Agencies' Core Balanced Business Scorecard, which is used to review the effectiveness of the Clearing Agencies' operations, information technology services levels, financial performance and other aspects of their business, including their respective participants' experiences. The Framework would also describe some of the steps the Clearing Agencies take in order to be efficient and effective in meeting the requirements of their participants and the markets they serve, including, for example, through the establishment, implementation, maintenance and enforcement of a written policy to address escalation, tracking and resolution of certain customer complaints. Therefore, by describing some of the ways in which the Clearing Agencies review the efficiency and effectiveness of their businesses and operations, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(21).<sup>26</sup>

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<sup>24</sup> Id.

<sup>25</sup> 17 CFR 240.17Ad-22(e)(21).

<sup>26</sup> Id.

**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 methods by which the Clearing Agencies manage Key Clearing Agency Risks, and would not effectuate any changes to the Clearing Agencies’ processes described therein as they currently apply to their respective 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.

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

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-NSCC-2017-012)

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change to Adopt the Clearing Agency Risk Management 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 July \_\_, 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 the Clearing Agency Risk Management Framework (“Framework”) 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”), described below. The Framework would apply to both of FICC’s divisions, the Government Securities Division (“GSD”) and the Mortgage-Backed Securities Division (“MBSD”). The Framework would be maintained by the

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

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

Clearing Agencies to support their compliance with Rules 17Ad-22(e)(1), (e)(3), (e)(20), and (e)(21) under the Act, as described below.<sup>3</sup>

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>4</sup>

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

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Clearing Agencies are proposing to adopt the Framework, which would describe the manner in which each of the Clearing Agencies (i) comprehensively manages legal, credit, liquidity, operational, general business, investment, custody, and

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<sup>3</sup> 17 CFR 240.17Ad-22(e)(1), (e)(3), (e)(20), and (e)(21).

<sup>4</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>.

other risks that arise in or are borne by it (“Key Clearing Agency Risks”); (ii) maintains a well-founded, clear, transparent and enforceable legal basis for each aspect of its activities; (iii) identifies, monitors, and manages risks related to links it establishes with one or more clearing agencies, financial market utilities, or trading markets; and (iv) meets the requirements of its participants<sup>5</sup> and the markets it serves efficiently and effectively. The Framework would be maintained by the General Counsel’s Office (“GCO”) of DTCC.<sup>6</sup> The Framework would provide that GCO, in coordination with all departments responsible for the processes described in the Framework, reviews the Framework at least annually.

The processes described in the Framework, and any policies, procedures or other documents created to support those processes, may be owned by other departments within DTCC, on behalf of each Clearing Agency. These processes, and any documents created to support those processes, would support the Clearing Agencies’ compliance with the requirements of Rules 17Ad-22(e)(1), (e)(3), (e)(20), and (e)(21), and the Clearing Agencies may develop other processes or adopt other documents that further support these requirements and are not described in the Framework.<sup>7</sup>

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<sup>5</sup> FICC and NSCC refer to their participants as “Members,” while DTC refers to its participants as “Participants.” These terms are defined in the Clearing Agencies’ Rules. In this filing, as well as in the Framework, “participant” or “participants” refers to both the Members of FICC and NSCC and the Participants of DTC.

<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.

<sup>7</sup> 17 CFR 240.17Ad-22(e)(1), (e)(3), (e)(20), and (e)(21).

*Comprehensive Management of Key Clearing Agency Risks*

The Framework would state that the Boards have delegated to DTCC management, on behalf of the Clearing Agencies, the responsibility for identifying, assessing, measuring, monitoring, mitigating and reporting risks through a process of developing individual risk tolerance statements for identified risks. The Framework would describe how these risk tolerance statements set out applicable risk controls and other measures used to manage risks, and how residual risks may be identified through this process for either further management or “acceptance” (which follows a defined escalation and approval process). The Framework would also state that DTCC management, on behalf of the Clearing Agencies, is responsible for the day-to-day management of those residual risks. Finally, the Framework would describe the governance around maintenance of those risk tolerance statements, which are reviewed and approved by a management committee and by the Risk Committee of the Boards at least annually, and are also provided to the Boards for their review and approval at least annually.

The Framework would describe how the Clearing Agencies employ a “Three Lines of Defense” approach as a sound risk management framework for comprehensively managing Key Clearing Agency Risks in order to support their compliance with the requirements of Rule 17Ad-22(e)(3). The Framework would describe the roles of personnel and business units in this risk management approach, which includes (1) a first line of defense comprised of the various business lines and functional units that support the products and services offered by the Clearing Agencies (collectively, “Clearing Agency Business/Support Areas”); (2) a second line of defense comprised of control

functions that support the Clearing Agencies, including the organization's legal, privacy and compliance areas, as well as the DTCC Risk Department, which is specifically dedicated to risk management concerns (collectively, "Clearing Agency Control Functions"); and (3) a third line of defense, which is performed by DTCC Internal Audit.

The Framework would identify the roles of each line of defense. The Framework would state that, as the first line of defense, each Clearing Agency Business/Support Area would, for example, identify Key Clearing Agency Risks applicable to its function, determine the best way to mitigate such risks, self-test internal controls, and create and implement actions plans for risk mitigation. The Framework would state that the role of the second line of defense includes, for example, working with the Clearing Agency Business/Support Areas on efforts to mitigate Key Clearing Agency Risks and providing tools to those groups to enable them to analyze, monitor, and proactively manage those risks. Finally, the Framework would identify the role of DTCC Internal Audit as the third line of defense as including, for example, directing its own resources to review and test key controls that help mitigate significant Key Clearing Agency Risks, then reporting on the results of that testing.

In connection with a description of the second and third lines of defense, the Framework would describe how personnel within the DTCC Risk Department and DTCC Internal Audit are provided with sufficient authority, resources, independence from management, and access to the Boards. The Framework would provide that the DTCC Risk Department and DTCC Internal Audit are functionally independent from all other Clearing Agency Business/Support Areas. The Framework would also describe how such personnel have a direct reporting line to, and oversight by, the Risk Committee of

the Boards and the Audit Committee of the Boards, respectively, which is supported by the charters of these committees.

The Framework would provide that the Clearing Agencies maintain a policy to govern the requirements for establishing, managing, and assessing the performance of internal committees and councils, including a set of senior management committees that provide oversight of the Three Lines of Defense approach to management of Key Clearing Agency Risks, as well as other aspects of the Clearing Agencies' risk management. The Framework would also describe the process by which the Clearing Agencies maintain risk management policies, procedures, Clearing Agencies' Rules, frameworks and other documents designed to identify, measure, monitor and manage Key Clearing Agency Risks. The Framework would describe policies maintained by the Clearing Agencies that (1) govern the steps taken to meet their regulatory requirements related to proposed rule change and advance notice filings pursuant to Section 19(b)(1) of the Act,<sup>8</sup> and the rules thereunder, and Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, entitled the Payment, Clearing, and Settlement Supervision Act of 2010,<sup>9</sup> and the rules thereunder (collectively, "Filing Requirements"); and (2) establish a set of standards and holistic approach for creating and managing risk management policies, procedures, Clearing Agencies' Rules, frameworks and other documents, which include required, periodic reviews as well as the governance for approval of such documents ("Document Standards"). The Framework

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<sup>8</sup> 15 U.S.C. 78s(b)(1).

<sup>9</sup> 12 U.S.C. 5465(e)(1).

would provide that, with respect to those documents that address Key Clearing Agency Risks, the Document Standards require annual approval by the Boards.

The Framework would describe certain documents that are subject to the respective policies governing the Filing Requirements and the Document Standards, described above. For example, the Framework would describe how the Clearing Agencies maintain the Clearing Agencies' Rules, which support the Clearing Agencies' ability to provide for a well-founded, clear, transparent, and enforceable legal basis for each aspect of their activities in all relevant jurisdictions. Maintenance of the Clearing Agencies' Rules is supported by the policy governing the Filing Requirements and the Document Standards, described above. The Framework would state that the Clearing Agencies' Rules establish the membership onboarding process of the Clearing Agencies, which supports the enforceable legal basis for the Clearing Agencies' Rules. The Framework would also state that the Clearing Agencies may adopt and maintain other risk management frameworks, separate from the Framework, that address, in whole or in part, the management of other Key Clearing Agency Risks, including, for example, the management of operational, liquidity and market risks.

*Information and Incentives for Participant Management of Risks*

The Framework would describe how the Clearing Agencies support their compliance with Rule 17Ad-22(e)(3) by providing their respective participants with information and incentives to enable them, and, through them, their customers, to monitor, manage and contain the risks they pose to the respective Clearing Agencies. The Framework would identify some of the sources of the information that is made available to participants, including, for example, (1) materials on the DTCC website, such

as the Clearing Agencies' Rules, user guides and training courses, and regularly updated disclosures made pursuant to the guidelines published by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions;<sup>10</sup> and <sup>(2)</sup> reports provided to Clearing Agency participants regarding their margin and liquidity requirements and their transaction volumes and values, as applicable.

The Framework would also describe some of the incentives used by the Clearing Agencies to enable their participants to monitor, manage and contain risks they pose to the Clearing Agencies, including, for example, (1) daily margin requirements, pursuant to the Clearing Agencies' Rules, which are calculated in close correlation to the risk each participant poses to the relevant Clearing Agency; and (2) other tools within the Clearing Agencies' Rules that enable the Clearing Agencies to enforce their and their participants' respective rights and obligations under those rules.

*Management of Risks Related to Material Interdependencies and External Links*

The Framework would describe some of the ways in which the Clearing Agencies regularly review the material risks they bear from and pose to other entities as a result of external links and material interdependencies. The Framework would identify some of the Clearing Agencies' external links that create material interdependencies between the Clearing Agencies and other entities party to such link, which may include, for example, links with their participants, settling banks, investment counterparties and liquidity providers, and links with vendors and other service providers. With respect to

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<sup>10</sup> See Principles for financial market infrastructures, issued by the Committee on Payment and Settlement Systems and the Technical Committee of the International Organization of Securities Commissions (April 2012), available at <http://www.bis.org/publ/cpss101a.pdf>.

these links, the Framework would describe how the Clearing Agencies review and monitor any resulting risks, which is driven by the nature of the relationship.

For example, risks related to the Clearing Agencies' link to their respective participants and settling banks, as applicable, are addressed through tools found within the Clearing Agencies' Rules, as these entities are bound by the Rules.

Additionally, risks arising from links to vendors are identified, assessed, controlled, and monitored through a comprehensive review and vetting process. The Framework would describe how a risk-based approach is employed to assess the need and level of due diligence activities associated with the evaluation of new vendors before a contractual relationship is established and with the re-evaluation of existing vendors. The Framework would state that this process involves the review of certain information related to a proposed vendor relationship, which should focus on confidentiality, integrity, availability and recoverability related to that relationship. The Framework would also describe how risk related to existing vendor relationships is reviewed periodically, throughout the lifecycle of the relationship. The management of vendor relationships through the process that would be described in the Framework would also support the Clearing Agencies' maintenance of clear, understandable contracts that are consistent with relevant laws and regulations.

The Framework would describe the Clearing Agencies' management and monitoring of systemic risks, and how the Clearing Agencies utilize a series of comprehensive reviews that include input from a cross-functional group to identify, monitor and manage risks related to all Clearing Agency external links, in addition to links that create material interdependencies.

*Scope of Services Responsive to Market Needs*

The Framework would describe some of the ways in which the Clearing Agencies are efficient and effective in meeting the requirements of their participants and the markets they serve. The Framework would describe the Clearing Agencies' structured approach for the implementation of new initiatives, which includes conducting a comprehensive risk assessment of new initiatives that are in scope of this approach. These reviews address, among other matters, compliance with applicable laws, regulations and standards, and, in this way, support the Clearing Agencies' ability to demonstrate a well-founded legal basis for the activities to be conducted in connection with new initiatives.

The Framework would also describe the Clearing Agencies' role in industry-wide strategic initiatives through participation on industry working groups and through the development and publication of concept papers. The Framework would describe how the Clearing Agencies use periodic surveys and employ product-aligned customer service representatives to ensure clients receive the right level of responsiveness in order to support their needs. The Framework would describe how the Clearing Agencies have established a process for escalating and responding to certain customer complaints. The Framework would also describe the Clearing Agencies' Core Balanced Business Scorecard, which is used by the Clearing Agencies to review and track the effectiveness of their operations, information technology service levels, financial performance, human capital as well as their participants' experience.

*Recovery and Orderly Wind-Down*

The Framework would provide that the Clearing Agencies maintain policies and procedures to govern the development of plans for recovery or orderly wind-down. Such documents would define the roles and responsibilities of relevant business units in the development and documentation of the plans and would outline the general content of the plans.

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> and the subsections cited below of Rules 17Ad-22(e)(1), (e)(3), (e)(20), and (e)(21),<sup>12</sup> each promulgated under the Act, for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a registered clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.<sup>13</sup> As described above, the Framework would describe some of the ways the Clearing Agencies comprehensively manage Key Clearing Agency Risks, which include legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in

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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)(1), (e)(3), (e)(20), and (e)(21).

<sup>13</sup> 15 U.S.C. 78q-1(b)(3)(F).

or are borne by the Clearing Agencies. For example, the Framework would describe how the Clearing Agencies utilize a Three Lines of Defense approach to assessing, measuring, monitoring, mitigating, and reporting those risks, and would identify the roles and responsibilities of each line of defense within that approach. The Framework would also describe other risk management activities, including, for example the establishment and maintenance of certain management committees that would provide oversight to the Clearing Agencies' businesses and related risk management.

By describing some of the ways the Clearing Agencies manage their Key Clearing Agency Risks, the Framework would serve as a basis for the processes, policies, procedures and other documents that the Clearing Agencies may develop to facilitate those risk management activities. The activities that would be described within the Framework, and the policies, procedures or other documents that would be reasonably and fairly implied, thereby collectively allow the Clearing Agencies to continue the prompt and accurate clearance and settlement of securities and assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible notwithstanding the risks that arise in or are borne by the Clearing Agencies. Therefore, the Clearing Agencies believe the Framework is consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>14</sup>

Rule 17Ad-22(e)(1) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to, provide for a well-founded, clear, transparent, and enforceable

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<sup>14</sup> Id.

legal basis for each aspect of its activities in all relevant jurisdictions.<sup>15</sup> The Framework would describe how the Clearing Agencies maintain the Clearing Agencies' Rules, which are the key legal basis for each of the Clearing Agencies' respective activities described therein. The Clearing Agencies' Rules are incorporated by reference into participants' membership agreements, and, therefore, constitute an enforceable contract governing the rights and obligations of the Clearing Agencies and those participants. The Framework would describe how the Clearing Agencies' Rules are published on the DTCC website, and how the Clearing Agencies adhere to the Filing Requirements, which provide a clear, transparent and enforceable legal framework under which the Clearing Agencies' Rules are adopted and enforced. Through their compliance with the Filing Requirements, as would be described in the Framework, the Clearing Agencies articulate the legal basis for proposed changes to their activities, as described in the Clearing Agencies' Rules, in a clear and understandable way.

The Framework would also describe how the Clearing Agencies review and assess risk related to their contractual arrangements with vendors, service providers and other external parties with which the Clearing Agencies may establish links. The Framework would also describe the process by which the Clearing Agencies review new initiatives prior to implementation, which include a review of the legal risks that may be posed by those initiatives. For these reasons, the processes described in the Framework allow the Clearing Agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for a well-founded, clear, transparent, and enforceable legal basis for each aspect of its activities in all relevant

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<sup>15</sup> 17 CFR 240.17Ad-22(e)(1).

jurisdictions. Therefore, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(1).<sup>16</sup>

The Clearing Agencies believe that the Framework is consistent with the requirements of the following subsections of Rule 17Ad-22(e)(3), cited below, for the reasons described below.<sup>17</sup>

Rule 17Ad-22(e)(3)(i) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which includes risk management policies, procedures, and systems designed to identify, measure, monitor, and manage the range of risks that arise in or are borne by the covered clearing agency, that are subject to review on a specified periodic basis and approved by the board of directors annually.<sup>18</sup> The Framework would describe how the Clearing Agencies maintain comprehensive policies, procedures and other documents, including, for example, the Framework and certain other risk management frameworks, separate and apart from the Framework, which are designed to identify, measure, monitor and manage Key Clearing Agency Risks. The Framework would state that the Framework is reviewed least annually. The Document Standards, which would be described in the Framework, set a timeframe for the periodic review of these documents,

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<sup>16</sup> Id.

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

<sup>18</sup> 17 CFR 240.17Ad-22(e)(3)(i).

and would, with respect to those documents that address Key Clearing Agency Risks, require annual approval by the Boards. By describing the process for the establishment, implementation, maintenance and enforcement of these risk management documents, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(3)(i).<sup>19</sup>

Rule 17Ad-22(e)(3)(ii) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which includes plans for the recovery and orderly wind-down of the covered clearing agency necessitated by credit losses, liquidity shortfalls, losses from general business risk, or any other losses.<sup>20</sup> The Framework would describe how the Clearing Agencies maintain policies and procedures that govern the development of plans for the recovery and orderly wind-down of the Clearing Agencies, and would provide that these policies and procedures would define the roles and responsibilities of relevant business units in the development and documentation of those plans. Therefore, by describing the policies and procedures maintained by the Clearing Agencies in order to prepare appropriate plans for the recovery and orderly wind-down of the Clearing Agencies, the

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<sup>19</sup> Id.

<sup>20</sup> 17 CFR 240.17Ad-22(e)(3)(ii).

Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(3)(ii).<sup>21</sup>

Rule 17Ad-22(e)(3)(iii) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which provides risk management and internal audit personnel with sufficient authority, resources, independence from management, and access to the board of directors.<sup>22</sup> Rule 17Ad-22(e)(3)(iv) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which provides risk management and internal audit personnel with a direct reporting line to, and oversight by, a risk management committee and an independent audit committee of the board of directors, respectively.<sup>23</sup>

The Framework would describe how the Clearing Agencies use a Three Lines of Defense approach to the management of Key Clearing Agency Risks. In connection with this approach, the Framework would describe the roles of risk management and internal

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<sup>21</sup> Id.

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

<sup>23</sup> 17 CFR 240.17Ad-22(e)(3)(iv).

audit personnel as the second and third lines of defense. The Framework would describe how both the DTCC Risk Department and DTCC Internal Audit are functionally independent from all other Clearing Agency Business/Support Areas. The Framework would also describe how the senior management within both groups report directly to appropriate committees of the Boards, and how, through this reporting line, the groups have access to the Boards, as necessary. Therefore, through this description of the DTCC Risk Department's and DTCC Internal Audit's roles and functions, in connection with the Three Lines of Defense approach to risk management, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(3)(iii) and (e)(3)(iv).<sup>24</sup>

Rule 17Ad-22(e)(20) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to identify, monitor, and manage risks related to any link the covered clearing agency establishes with one or more other clearing agencies, financial market utilities, or trading markets.<sup>25</sup> The Framework would describe how the Clearing Agencies review both proposed and existing links with other entities, including those links that may result in material interdependencies. For example, the Framework would describe some of the ways the Clearing Agencies manage risks related to their links with, as applicable, participants, settling banks, investment counterparties and liquidity providers, vendors and service providers, and would also describe how the Clearing Agencies identify and address risks that have the potential of creating systemic impact.

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<sup>24</sup> Id.

<sup>25</sup> 17 CFR 240.17Ad-22(e)(20).

With respect to links with vendors and service providers, the Framework would describe how the Clearing Agencies, through the establishment, implementation, maintenance and enforcement of written policies and procedures, apply a comprehensive vendor review and vetting process that includes reviews of credit, operational, legal and other risks that may arise from that relationship. Therefore, by describing the various ways the Clearing Agencies identify and address risks related to links with other entities, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(20).<sup>26</sup>

Rule 17Ad-22(e)(21) under the Act requires, in part, that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to be efficient and effective in meeting the requirements of its participants and the markets it serves, and have the covered clearing agency's management regularly review the efficiency and effectiveness of its (i) clearing and settlement arrangements; (ii) operating structure, including risk management policies, procedures, and systems; (iii) scope of products cleared or settled; and (iv) use of technology and communication procedures.<sup>27</sup> The Framework would describe some of the ways in which the Clearing Agencies review the efficiency and effectiveness of their businesses and operations. For example, the Framework would describe how the Clearing Agencies employ a structured approach to the pre-implementation reviews of new initiatives, including initiatives related to their clearing and settlement arrangements, scope of products cleared or settled, and use of technology and communication

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<sup>26</sup> Id.

<sup>27</sup> 17 CFR 240.17Ad-22(e)(21).

procedures. The Framework would also describe the Clearing Agencies' Core Balanced Business Scorecard, which is used to review the effectiveness of the Clearing Agencies' operations, information technology services levels, financial performance and other aspects of their business, including their respective participants' experiences. The Framework would also describe some of the steps the Clearing Agencies take in order to be efficient and effective in meeting the requirements of their participants and the markets they serve, including, for example, through the establishment, implementation, maintenance and enforcement of a written policy to address escalation, tracking and resolution of certain customer complaints. Therefore, by describing some of the ways in which the Clearing Agencies review the efficiency and effectiveness of their businesses and operations, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(21).<sup>28</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 methods by which the Clearing Agencies manage Key Clearing Agency Risks, and would not effectuate any changes to the Clearing Agencies' processes described therein as they currently apply to their respective 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.

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<sup>28</sup> Id.

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-NSCC-2017-012 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-2017-012. 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-2017-012 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>29</sup>

Secretary

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<sup>29</sup> 17 CFR 200.30-3(a)(12).

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