

Required fields are shown with yellow backgrounds and asterisks.

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

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

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

Amend the Clearing Agency Investment Policy

**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 * <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"/>

**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 <input type="text" value="12/13/2018"/>	<input type="text" value="Managing Director and Deputy General Counsel"/>
By <input type="text" value="Lois J. Radisch"/>	<input type="text" value="lradisch@dtcc.com"/>
(Name *)	

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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

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

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

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

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

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

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Exhibit Sent As Paper Document

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

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

(a) The proposed rule change would revise the Clearing Agency Investment Policy (“Investment Policy”) of Fixed Income Clearing Corporation (“FICC”) and its affiliates, The Depository Trust Company (“DTC”) and National Securities Clearing Corporation (“NSCC,” and together with FICC and DTC, the “Clearing Agencies”) in order to (1) update the governance for changes to the Investment Policy and provide for annual approval of the Investment Policy by the Board of Directors of each of the Clearing Agencies (collectively, “Boards”); (2) revise the process for identifying an applicable external credit rating for a potential investment counterparty when there are discrepancies between available external credit ratings for that potential counterparty; (3) amend the authority to approve (a) the establishment of an investment relationship with an investment counterparty, (b) investment transactions that exceed applicable investment limits, and (c) investment transactions in high grade corporate debt and U.S. Treasury securities; and (4) make technical corrections and revisions to clarify and simplify statements in the Investment Policy; as described in greater detail below.

(b) Not applicable.

(c) Not applicable.

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

The delegation of authority to the General Counsel and Deputy General Counsels of FICC to approve certain proposed rule changes and the related regulatory filings, described herein, was approved by the FICC Board at a meeting duly called and held on December 20, 2017. The proposed change to the Investment Policy to provide for this delegation of authority and the other proposed changes described herein were approved by the FICC Board at a meeting duly called and held on October 17, 2018 and by the Risk Committee of the FICC Board at a meeting duly called and held on October 16, 2018.

## **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 revise the Investment Policy, which was adopted in December 2016<sup>1</sup> and are maintained in compliance with Rule 17Ad-22(e)(16) under the Securities Exchange Act of 1934 (“Act”).<sup>2</sup>

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<sup>1</sup> See Securities Exchange Act Release No. 79528 (December 12, 2016), 81 FR 91232 (December 16, 2016) (SR-DTC-2016-007, SR-FICC-2016-005, SR-NSCC-2016-003).

<sup>2</sup> 17 CFR 240.17Ad-22(e)(16). As discussed in this filing, the Investment Policy also addresses compliance with the requirements of Rule 17Ad-22(e)(3). 17 CFR 240.17Ad-22(e)(3).

### *Overview of the Investment Policy*

The Investment Policy governs the management, custody and investment of cash deposited to the respective NSCC and FICC Clearing Funds, and the DTC Participants Fund,<sup>3</sup> the proprietary liquid net assets (cash and cash equivalents) of the Clearing Agencies, and other funds held by the Clearing Agencies pursuant to their respective rules.

The Investment Policy identifies the guiding principles for investments and defines the roles and responsibilities of DTCC staff in administering the Investment Policy pursuant to those principles. The Investment Policy is co-owned by DTCC's Treasury group ("Treasury")<sup>4</sup> and the Counterparty Credit Risk team ("CCR") within DTCC's Group Chief Risk Office ("GCRO").<sup>5</sup> Treasury is responsible for identifying potential counterparties to investment transactions, establishing and managing investment relationships with approved investment counterparties, and making and monitoring all investment transactions with respect to the Clearing Agencies. CCR is responsible for conducting a credit review of any potential counterparty, updating those reviews on a quarterly basis, and establishing an investment limit for each counterparty.

The Investment Policy also identifies sources of funds that may be invested, and the permitted investments of those funds, including the authority required to make such investments and the parameters of, and limitations on, each type of investment. Allowable investments include bank deposits, reverse repurchase agreements, direct obligations of the U.S. government, money market mutual funds, high-grade corporate debt, and hedge transactions. Finally, the Investment Policy defines the approval authority required to exceed established investment limits.

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<sup>3</sup> The respective Clearing Funds of NSCC and FICC, and the DTC Participants Fund are described further in the Rules & Procedures of NSCC ("NSCC Rules"), the DTC Rules, By-laws and Organization Certificate ("DTC Rules"), the Clearing Rules of the Mortgage-Backed Securities Division of FICC ("MBSD Rules") or the Rulebook of the Government Securities Division of FICC ("GSD Rules"), respectively, available at <http://dtcc.com/legal/rules-and-procedures>. See Rule 4 (Clearing Fund) of the NSCC Rules, Rule 4 (Participants Fund and Participants Investment) of the DTC Rules, Rule 4 (Clearing Fund and Loss Allocation) of the GSD Rules and Rule 4 (Clearing Fund and Loss Allocation) of the MBSD Rules.

<sup>4</sup> Treasury is a part of the DTCC Finance Department and is responsible for the safeguarding, investment and disbursement of funds on behalf of the Clearing Agencies and in accordance with the principles outlined in the Investment Policy.

<sup>5</sup> Among other responsibilities, GCRO is generally responsible for the systems and processes designed to identify and manage credit, market and liquidity risks to the Clearing Agencies.

### ***Proposed Revisions to the Investment Policy***

The Investment Policy is reviewed and approved by the Boards annually. In connection with the most recent annual review of the Investment Policy, the Clearing Agencies have decided to propose certain revisions and updates. These proposed revisions, described in greater detail below, are designed to update the Investment Policy and help ensure that it continues to operate as intended.

#### ***1. Investment Policy Change Management and Annual Board Approval***

The Clearing Agencies are proposing revisions to two aspects of governance in the Investment Policy: (1) approving changes to the Investment Policy and (2) annual approval by the Board, as described below.

##### **a. Governance for Approving Changes to Investment Policy**

Currently, the Investment Policy includes a statement that “routine” changes to the Investment Policy must be approved jointly by an officer in Treasury and an officer in CCR, and that material changes to the Investment Policy must be approved by the Boards, or such committee as may be delegated authority by the Boards from time to time.

The Boards have delegated to the General Counsel and the Deputy General Counsels of the Clearing Agencies the authority to approve certain proposed rule changes of the Clearing Agencies and the filings with respect to such proposed rule changes required by Rule 19b-4 under the Act.<sup>6</sup> Specifically, the Boards have delegated to the General Counsel and Deputy General Counsels of the Clearing Agencies authority to approve (1) proposed rule changes that may be filed pursuant to Section 19(b)(3)(A) of the Act,<sup>7</sup> (2) proposed rule changes that constitute clarifications, corrections or minor changes in the rules of the Clearing Agencies but that will not be filed pursuant to Section 19(b)(3)(A) of the Act,<sup>8</sup> in each case, other than any rule change where the aggregate annual fees generated as a result of such rule change are anticipated to be more than \$1,000,000 at the time of the filing, and (3) all proposed changes that are subject to an advance notice as required by Rule 19b-4(n) under the Act<sup>9</sup> but do not constitute a change to the rules of Clearing Agencies.

Therefore, the statement within the Investment Policy that “routine” changes to the Investment Policy must be approved jointly by an officer in Treasury and an officer in CCR, and that material changes to the Investment Policy must be approved by the Boards or committees of the Boards is inconsistent with these existing delegations of approval authority. As such, the Clearing Agencies are proposing to amend the Investment Policy to clarify that changes to the

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<sup>6</sup> 17 CFR 240.19b-4.

<sup>7</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>8</sup> Id.

<sup>9</sup> 17 CFR 240.19b-4(n).

Investment Policy may be approved by either (1) the Boards, (2) such Board committees as may be delegated authority by the Boards from time to time pursuant to their charters, or (3), with respect to certain changes, the General Counsel or Deputy General Counsels of the Clearing Agencies, pursuant to authority delegated by the Boards and with the advice and direction of Treasury and CCR.

The proposed change would make the Investment Policy consistent with existing internal delegations of authority and would also facilitate expedited review and approval of changes that may not require the review and approval of the Boards or committees of the Boards.

b. Annual Approval of Investment Policy by Boards

The Investment Policy currently states that the Boards or such committees as may be delegated authority from time to time shall review the Investment Policy on an annual basis.

Rule 17Ad-22(e)(3) under the Act requires the Clearing Agencies to maintain a sound risk management framework for comprehensively managing the risks that arise in or are borne by the Clearing Agencies, including investment and custody risks.<sup>10</sup> Rule 17Ad-22(e)(3)(i) under the Act requires that the risk management policies, procedures, and systems that are maintained in compliance with Rule 17Ad-22(e)(3) be subject to review on a specified periodic basis and be approved by the Boards annually.<sup>11</sup> As stated above, the Investment Policy governs the management, custody and investment held by the Clearing Agencies, and is maintained in order to manage the Clearing Agencies' investment and custody risks, as required by Rule 17Ad-22(e)(3) under the Act.<sup>12</sup> Therefore, the Investment Policy must be approved by the Boards annually, as required by Rule 17Ad-22(e)(3)(i) under the Act.<sup>13</sup>

The Clearing Agencies are proposing to amend the Investment Policy to provide that the Investment Policy shall be approved annually by the Boards or such committees as may be delegated authority from time to time.<sup>14</sup> The proposed change would align the governance of the Investment Policy with the applicable requirements of Rule 17Ad-22(e)(3)(i) under the Act.<sup>15</sup>

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<sup>10</sup> 17 CFR 240.17Ad-22(e)(3).

<sup>11</sup> 17 CFR 240.17Ad-22(e)(3)(i).

<sup>12</sup> 17 CFR 240.17Ad-22(e)(3).

<sup>13</sup> 17 CFR 240.17Ad-22(e)(3)(i).

<sup>14</sup> Id.

<sup>15</sup> Id.

2. *Process for Identifying External Credit Rating of Potential Investment Counterparties*

One of the responsibilities of CCR under the Investment Policy is to perform credit reviews of potential investment counterparties. The credit review is used to determine if the Clearing Agencies should establish an investment relationship with that entity, and what, if any, limits should be placed on investments with that entity as an investment counterparty. These credit reviews may include, for example, a business description, identification of key risks and any mitigants to those risks, a general financial analysis of the potential counterparty, such counterparty's available external credit ratings, and the recommended investment limit for such counterparty. The Investment Policy sets a minimum external credit rating for potential investment counterparties for specified types of investments. External credit ratings may be assigned by either S&P Global Ratings, Moody's Investors Service, Inc., or Fitch Ratings Inc.

Currently, the Investment Policy states that if there is a single notch discrepancy between available external credit ratings, CCR shall use the more favorable rating available. The Investment Policy further states that, if there is a multiple notch discrepancy between available external credit ratings for a potential investment counterparty, CCR may use its discretion, based on information available to it, in determining the applicable credit rating for its credit review of that counterparty.

The Clearing Agencies are proposing to amend the Investment Policy to remove CCR's discretion that may be used when there is a multiple notch discrepancy between the external credit ratings, and instead require that CCR shall use the rating that is one notch above the lowest available external credit rating for that counterparty.

The Clearing Agencies determined that this approach would be appropriate because credit ratings may be obtained from one of the three credit rating agencies identified above, so there could only be a maximum of three available credit ratings for an entity. As such, under this proposed approach, the middle available rating would be applied where there is a multiple notch discrepancy between available credit ratings.

The Clearing Agencies believe the proposed change would improve the process for applying an external credit rating in connection with credit reviews because it would create a clear and objective approach to identifying the applicable external credit rating in these circumstances by removing CCR's discretion in determining which rating to apply.

3. *Approval Authority for Investments Relationships, Exceeding Investment Limits and Certain Investment Transactions*

The Investment Policy identifies the groups of individuals who have the authority to approve (1) the establishment of an investment relationship with an investment counterparty, (2) investment transactions that exceed applicable investment limits, and (3) investment transactions in high grade corporate debt and U.S. Treasury securities. The Clearing Agencies are proposing to revise the approval authority in the Investments Policy, as described below.

a. Focus the Approval Authority for Investments Relationships and Exceeding Investment Limits to Managing Director in CCR

The Clearing Agencies are proposing to amend the authority for approving the establishment of investment relationships and investment transactions that exceed investment limits to restrict one of the individuals authorized to provide such approvals to a Managing Director in CCR, rather than any Managing Director in GCRO, for the reasons described below.

First, with respect to the authority to establish an investment relationship with an investment counterparty, the Investment Policy currently identifies two groups of authorized individuals – “Group A” and “Group B” – and provides that an investment relationship may be approved by either two individuals from Group A acting jointly, or by one individual from Group A and one individual from Group B acting jointly. Currently, Group A includes the Group Chief Risk Officer or a Managing Director in the Financial Risk Management group (the former name of the GCRO).<sup>16</sup>

Second, with respect to approving investment transactions that exceed applicable investment limits, the Investment Policy currently identifies three groups of individuals – “Group A,” “Group B,” and “Group C” – and provides that an investment transaction that exceeds applicable investment limits may be approved by either one individual in Group A and one individual from Group B acting jointly; or one individual in Group A or one individual in Group B, and one individual in Group C, acting jointly. Currently, Group B includes both a Managing Director in GCRO and the Group Chief Risk Officer.

The Clearing Agencies are proposing to limit the Managing Director in GCRO who is authorized to provide these approvals to a Managing Director in the CCR group within GCRO. As described above, CCR is responsible for conducting the credit reviews of potential investment counterparties, and for setting investment limits for investment counterparties. Therefore, a Managing Director in CCR is more closely involved in conducting credit reviews of potential investment counterparties and setting investment limits that are appropriate based on those reviews, where other Managing Directors within GCRO do not have a role in the administration of the Investment Policy. Therefore, the Clearing Agencies believe this proposed change is appropriate because it would focus the authorization to an individual who may be more capable of providing an informed authorization when necessary.

The Clearing Agencies are also proposing to provide that a Managing Director in CCR may assign a delegate within CCR with the title of Executive Director or higher, to jointly approve investment transactions that exceed applicable limits in the event a CCR Managing Director is unavailable. The approval of these transactions may be required in a short timeframe. Therefore, the proposed change would allow the Clearing Agencies to obtain these joint approvals from an officer within CCR, when necessary, without unnecessary delay in the event a Managing Director in CCR is not available to provide the requested authorization.

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<sup>16</sup> As described below, the Clearing Agencies are proposing to make a technical revision to the Investment Policy to update all references to the Financial Risk Management group, or “FRM,” to the Group Chief Risk Office, or “GCRO.”



b. Revising Approval Authority for Certain Investment Transactions

The Clearing Agencies are proposing to make two revisions to the approval authority for investment transactions in high grade corporate debt and U.S. Treasury securities, as described below.

Currently, the Investment Policy provides that investment transactions in high grade corporate debt and U.S. Treasury securities where the remaining time to maturity is two years or less must be approved by two individuals, acting jointly, who are identified in a group of individuals that includes both senior level executives and lower level officers. The value of investments that mature on a longer timeframe are subject to greater uncertainty over that period and such investments are generally viewed as posing greater risk. Therefore, the Investment Policy provides that investment transactions in high grade corporate debt and U.S. Treasury securities where the remaining time to maturity is more than two years must be approved by two individuals, acting jointly, from the same group of individuals who are authorized to approve such investments that mature on a shorter timeframe, so long as at least one of those individuals is a senior level executive.

First, the Clearing Agencies are proposing to revise the scope of investments that the two groups of individuals are authorized to approve. The proposed change would provide the first group of individuals with authority to approve investments, with two of them acting jointly, for a time to maturity of one year or less, and would provide the second group of individuals with authority to approve investments with a time to maturity of greater than one year, and up to a maximum of ten years for investments in U.S. Treasury securities and up to a maximum of five years for investments in high grade corporate debt. This proposed change would provide for a more conservative approach to approving these investments by limiting the investments that may be approved by the first group of authorized individuals to only those that mature on a shorter timeframe, and pose less risk.

Second, the Clearing Agencies are proposing to include an Executive Director in Finance in the first group of individuals, who are authorized to act jointly to approve investment transactions with a remaining time to maturity of one year or less. This proposed change would provide the Clearing Agencies with more flexibility to authorize investment transactions where the time to maturity is one year or less by authorizing an additional officer to approve this revised set of investments. The Investment Policy would continue to require that at least one of the individuals who approve investments that have a longer time to maturity be a senior level executive.

4. *Technical Revisions*

The Clearing Agencies are proposing to reorganize and reorder certain sections of the Investment Policy, and make other updates, corrections and clarifications, as described below.

a. Reordering and Reorganizing Certain Sections of the Investment Policy

First, the Clearing Agencies are proposing to remove Section 1.1, titled “Document Control Information,” from the Investment Policy. The information under this heading would be

incorporated into the Overview in Section 1, and this proposed change would simplify the organization of this Section.

Second, the Clearing Agencies are proposing to move the information currently in Section 7 to other sections in the Investment Policy and eliminate Section 7. Currently, Section 7.1 describes the authorizations for establishing investment relationships, and Section 7.2 describes the authorizations for entering into investment transactions. The information currently in Section 7.1 would be moved to a new Section 4.3. This proposed change would revise the Investment Policy so the authorizations for establishing investment relationships appears directly after the description of credit reviews of potential investment counterparties performed by CCR in Section 4.2.

The information currently in Section 7.2 would be moved to Section 6.2. This proposed change would revise the Investment Policy so the authorizations for investment transactions appear in the same Section as the description of the applicable investment type. As such, Sections 6.2.1, 6.2.2, and 6.2.4, which describe investments in bank deposits, reverse repurchase agreements, and money market mutual funds, respectively, would include a statement that investment transactions in these investment types are authorized pursuant to Section 4.1 of the Investment Policy and no separate approvals for such investment transactions are required. Sections 6.2.3 and 6.2.5, which describe investments in U.S. treasury securities and high-grade corporate debt, respectively, would include a table of the required authorizations for investment transactions in these investment types. The authorizations described in these tables would be amended as described above. The Investment Policy would also be updated to make conforming changes to update internal cross-references to these reorganized Sections.

Third, the Clearing Agencies are proposing to revise Section 6.2.6, which describes hedge transactions. The proposed change would move a statement regarding factors that may be considered when authorizing a hedge transaction to appear above the table of authorizations of those transactions. This proposed change would align Section 6.2.6 to be organized similarly to other subsections within Section 6.2, such that the information regarding authorizations of those transactions appears at the end of the subsection.

The Clearing Agencies believe each of the proposed changes are appropriate. By reorganization the Investment Policy such that sections regarding similar matters appear together, the proposed changes would improve the clarity of the Investment Policy.

#### b. Other Updates and Technical Revisions

The Clearing Agencies are also proposing to make other updates and technical revisions to the Investment Policy. These technical revisions would, for example, correct internal cross-references, revise the use of defined terms, and clarify descriptions within the Investment Policy, without changing the substantive statements being revised.

For example, Section 6.2.1 would be revised to include term deposits in a list of types of bank deposit investment transactions that may be executed pursuant to the Investment Policy. While the existing list was intended to be non-exhaustive, the proposed change would clarify that term bank deposits are also permitted. As another example, the Investment Policy would be

revised to reflect a change to the name of the DTCC's Financial Risk Management group, or "FRM," to the GCRO.

The Clearing Agencies believe the proposed updates and technical revisions would improve the clarity and accuracy of the Investment Policy and, therefore, would facilitate the execution of the Investment Policy.

(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 proposed modifications to the Investment Policy are consistent with Section 17A(b)(3)(F) of the Act<sup>17</sup> and Rules 17Ad-22(e)(3)(i) and (16) under the Act,<sup>18</sup> for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of each of the Clearing Agencies be designed to assure the safeguarding of securities and funds which are in the custody or control of each of the Clearing Agencies or for which they are responsible.<sup>19</sup> The investment guidelines and governance procedures set forth in the Investment Policy are designed to safeguard funds which are in the custody or control of the Clearing Agencies or for which they are responsible. Such protections include, for example, following a prudent and conservative investment philosophy that places the highest priority on maximizing liquidity and risk avoidance. The Clearing Agencies believe each of these proposed changes would help facilitate the effective execution of the Investment Policy pursuant to the guiding principle set forth therein. Therefore, the Clearing Agencies believe the proposed changes would allow the Clearing Agencies to continue to operate the Investment Policy pursuant to a prudent and conservative investment philosophy that assures the safeguarding of securities and funds which are in their custody and control, or for which they are responsible.

First, the Clearing Agencies believe the proposed changes to the Investment Policy governance would improve the processes for maintaining the Investment Policy and ensuring it continues to operate as intended. The proposed changes to reflect the existing delegation of authority to the General Counsel and Deputy General Counsels of the Clearing Agencies to approve certain changes to the Investment Policy would align this process to existing governance and delegations of authority within the Clearing Agencies. This proposed change would permit an expedited review and approval of changes that do not require action by the Boards or Board committees. In this way, the Clearing Agencies believe the proposed change would simplify the steps necessary for the Clearing Agencies to make certain non-material changes to the Investment Policy, subject to required regulatory review and approval of such changes. Meanwhile, the Clearing Agencies believe that the proposed change to require annual approval

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<sup>17</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>18</sup> 17 CFR 240.17Ad-22(e)(3)(i) and (16).

<sup>19</sup> 15 U.S.C. 78q-1(b)(3)(F).

of the Investment Policy would provide for stronger Board oversight and create an important control over the Investment Policy's effectiveness.

Second, the Clearing Agencies believe the proposed change to the process for identifying an applicable external credit rating for potential investment counterparties when there is a multiple notch discrepancy between available ratings would improve the credit reviews of those entities. The proposed change would improve credit reviews by creating a more objective approach to this aspect of those reviews and creating more consistency in the evaluation of these entities. Understanding the risks that may be presented by an investment counterparty is an important aspect of the Investment Policy's guidelines and governance procedures that are designed to safeguard funds which are in the custody or control of the Clearing Agencies or for which they are responsible.

Third, the Clearing Agencies believe the proposed change to certain approval authority within the Investment Policy would both enable the Clearing Agencies to authorize those individuals who are involved with the matters that they may be asked to approve, and would facilitate those approvals by authorizing additional individuals to approve lower risk matters. The proposed change to the approval authority for establishing investment relationships and entering investment transactions that exceed applicable limits to include only Managing Directors in CCR would refine this approval authority to individuals who are involved in these matters, and may be better able to provide an informed approval. The proposed change to the approval authority for investment transactions with maturity time would shift that authority to senior executives for investments that pose greater risk, creating a more conservative approach to those approvals. The proposed change to authorize Executive Directors in Finance to approve investment transactions with remaining time to maturity of less than one year would facilitate the approval of these transactions that pose less risk to the Clearing Agencies.

Finally, the Clearing Agencies believe the proposed changes to reorganize certain sections within the Investment Policy and the proposed updates and technical revisions to the Investment Policy would improve the clarity and accuracy of the Investment Policy. By creating clearer descriptions, the Clearing Agencies believe these proposed changes would make the Investment Policy more effective in governing the management, custody, and investment of funds of and held by the Clearing Agencies.

For the reasons described above, the Clearing Agencies believe the proposed changes would improve the effectiveness of the Investment Policy and allow the Investment Policy to continue to be administered in alignment with the investment guidelines and governance procedures set forth therein. Given that such guidelines and governance procedures are designed to safeguard funds which are in the custody or control of the Clearing Agencies or for which they are responsible, the Clearing Agencies believe the proposed changes are consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>20</sup>

Rule 17Ad-22(e)(3)(i) requires, in part, that the Clearing Agencies establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound

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<sup>20</sup>

Id.

risk management framework for comprehensively managing investment and custody risks that arise in or are borne by the Clearing Agencies, 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 Clearing Agencies, that are subject to review on a specified periodic basis and approved by the board of directors annually.<sup>21</sup> The Clearing Agencies are proposing to revise the Investment Policy to require that it be reviewed and approved by the Boards, or an authorized Board Committee, at least annually. The Boards, or an authorized Board Committee, will be provided with a copy of the Investment Policy at a regularly scheduled meeting, along with a memorandum describing any changes that had been made to the Investment Policy since its last annual approval. This proposed change would provide for important oversight of the operation of the Investment Policy and its continued effectiveness in governing the management, custody and investment of funds held by the Clearing Agencies. The proposed change is also designed to align the governance of the Investment Policy with the applicable requirements of Rule 17Ad-22(e)(3)(i) under the Act.<sup>22</sup>

Rule 17Ad-22(e)(16) under the Act requires the Clearing Agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to safeguard the Clearing Agencies' own and their participants' assets, minimize the risk of loss and delay in access to these assets, and invest such assets in instruments with minimal credit, market, and liquidity risks.<sup>23</sup>

The Clearing Agencies believe that the Investment Policy follows a prudent and conservative investment philosophy, placing the highest priority on maximizing liquidity and avoiding risk of loss, by requiring the segregation of funds of each Clearing Agency and of types of funds of each Clearing Agency, using external credit ratings in the evaluation of counterparties, and establishing investment limits by counterparty as well as investment type. As originally implemented, the Investment Policy was designed to meet the requirements of Rule 17Ad-22(e)(16) under the Act.<sup>24</sup>

For the reasons stated above, the Clearing Agencies believe that each of the proposed revisions would improve the administration of the Investment Policy and would make the Investment Policy more effective in governing the management, custody, and investment of funds of and held by the Clearing Agencies. In this way, the proposed changes would better allow the Clearing Agencies to maintain these documents in a way that is designed to meet the requirements of Rule 17Ad-22(e)(16). Therefore, the Clearing Agencies believe the proposed revisions would be consistent with the requirements of Rule 17Ad-22(e)(16) under the Act.<sup>25</sup>

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

<sup>22</sup> Id.

<sup>23</sup> 17 CFR 240.17Ad-22(e)(16).

<sup>24</sup> Id.

<sup>25</sup> Id.

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

Each of the Clearing Agencies believes that none of the proposed revisions to the Investment Policy would have any impact, or impose any burden, on competition. The Investment Policy applies equally to the Clearing Fund and Participants Fund deposits, as applicable, of each member of the Clearing Agencies, and establishes a uniform policy at the Clearing Agencies. The proposed changes to the Investment Policy would not affect any changes on the fundamental purpose or operation of this document and, as such, would also 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 Securities and Exchange Commission (“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.<sup>26</sup>

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

(a) The proposed rule change is to take effect pursuant to paragraph A of Section 19(b)(3) of the Act.<sup>27</sup>

(b) The proposal effects changes in the Investment Policy that (i) do not adversely affect the safeguarding of securities or funds in the custody or control of the Clearing Agencies or for which it is responsible; and (ii) do not significantly affect the respective rights or obligations of the Clearing Agencies or their respective participants, because, while the proposed changes would update certain governance matters, revise aspects of the review of potential counterparties and certain approval authority, and make technical corrections, as described above, these proposed changes would not significantly change the operation of the Investment Policy or its effectiveness in facilitating the safeguarding of funds in the custody or controls of the Clearing Agencies, or for which they are responsible, as described above.<sup>28</sup>

(c) Not applicable.

(d) Not applicable.

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<sup>26</sup> 15 U.S.C. 78s(b)(2).

<sup>27</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>28</sup> 17 CFR 240.19b-4(f)(4).

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

While the proposed rule changes are not based on the rules of another self-regulatory organization or of the Commission, the Investment Policy is applicable to each of the Clearing Agencies, and each of the Clearing Agencies has filed similar proposed revisions to this document 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 Investment Policy (revised). **Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 5 pursuant to 17 CFR 240.24b-2 being requested.**

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-FICC-2018-014)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Revise the Clearing Agency Investment Policy

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on December \_\_, 2018, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. FICC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(4) thereunder.<sup>4</sup> 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 consists of amendments to the Clearing Agency Investment Policy (“Investment Policy”) of FICC and its affiliates, The Depository Trust Company (“DTC”) and National Securities Clearing Corporation (“NSCC,” and together with FICC and DTC, the “Clearing Agencies”) in order to (1) update the governance for changes to the Investment Policy and provide for annual approval of the Investment

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

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

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(4).



Policy by the Board of Directors of each of the Clearing Agencies (collectively, “Boards”); (2) revise the process for identifying an applicable external credit rating for a potential investment counterparty when there are discrepancies between available external credit ratings for that potential counterparty; (3) amend the authority to approve (a) the establishment of an investment relationship with an investment counterparty, (b) investment transactions that exceed applicable investment limits, and (c) investment transactions in high grade corporate debt and U.S. Treasury securities; and (4) make technical corrections and revisions to clarify and simplify statements in the Investment Policy; as described in greater detail below.

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 revise the Investment Policy, which was adopted in December 2016<sup>5</sup> and are maintained in compliance with Rule 17Ad-22(e)(16) under the Act.<sup>6</sup>

***Overview of the Investment Policy***

The Investment Policy governs the management, custody and investment of cash deposited to the respective NSCC and FICC Clearing Funds, and the DTC Participants Fund,<sup>7</sup> the proprietary liquid net assets (cash and cash equivalents) of the Clearing Agencies, and other funds held by the Clearing Agencies pursuant to their respective rules.

The Investment Policy identifies the guiding principles for investments and defines the roles and responsibilities of DTCC staff in administering the Investment

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<sup>5</sup> See Securities Exchange Act Release No. 79528 (December 12, 2016), 81 FR 91232 (December 16, 2016) (SR-DTC-2016-007, SR-FICC-2016-005, SR-NSCC-2016-003).

<sup>6</sup> 17 CFR 240.17Ad-22(e)(16). As discussed in this filing, the Investment Policy also addresses compliance with the requirements of Rule 17Ad-22(e)(3). 17 CFR 240.17Ad-22(e)(3).

<sup>7</sup> The respective Clearing Funds of NSCC and FICC, and the DTC Participants Fund are described further in the Rules & Procedures of NSCC ("NSCC Rules"), the DTC Rules, By-laws and Organization Certificate ("DTC Rules"), the Clearing Rules of the Mortgage-Backed Securities Division of FICC ("MBSD Rules") or the Rulebook of the Government Securities Division of FICC ("GSD Rules"), respectively, available at <http://dtcc.com/legal/rules-and-procedures>. See Rule 4 (Clearing Fund) of the NSCC Rules, Rule 4 (Participants Fund and Participants Investment) of the DTC Rules, Rule 4 (Clearing Fund and Loss Allocation) of the GSD Rules and Rule 4 (Clearing Fund and Loss Allocation) of the MBSD Rules.

Policy pursuant to those principles. The Investment Policy is co-owned by DTCC's Treasury group ("Treasury")<sup>8</sup> and the Counterparty Credit Risk team ("CCR") within DTCC's Group Chief Risk Office ("GCRO").<sup>9</sup> Treasury is responsible for identifying potential counterparties to investment transactions, establishing and managing investment relationships with approved investment counterparties, and making and monitoring all investment transactions with respect to the Clearing Agencies. CCR is responsible for conducting a credit review of any potential counterparty, updating those reviews on a quarterly basis, and establishing an investment limit for each counterparty.

The Investment Policy also identifies sources of funds that may be invested, and the permitted investments of those funds, including the authority required to make such investments and the parameters of, and limitations on, each type of investment.

Allowable investments include bank deposits, reverse repurchase agreements, direct obligations of the U.S. government, money market mutual funds, high-grade corporate debt, and hedge transactions. Finally, the Investment Policy defines the approval authority required to exceed established investment limits.

#### ***Proposed Revisions to the Investment Policy***

The Investment Policy is reviewed and approved by the Boards annually. In connection with the most recent annual review of the Investment Policy, the Clearing Agencies have decided to propose certain revisions and updates. These proposed

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<sup>8</sup> Treasury is a part of the DTCC Finance Department and is responsible for the safeguarding, investment and disbursement of funds on behalf of the Clearing Agencies and in accordance with the principles outlined in the Investment Policy.

<sup>9</sup> Among other responsibilities, GCRO is generally responsible for the systems and processes designed to identify and manage credit, market and liquidity risks to the Clearing Agencies.

revisions, described in greater detail below, are designed to update the Investment Policy and help ensure that it continues to operate as intended.

*1. Investment Policy Change Management and Annual Board Approval*

The Clearing Agencies are proposing revisions to two aspects of governance in the Investment Policy: (1) approving changes to the Investment Policy and (2) annual approval by the Board, as described below.

a. Governance for Approving Changes to Investment Policy

Currently, the Investment Policy includes a statement that “routine” changes to the Investment Policy must be approved jointly by an officer in Treasury and an officer in CCR, and that material changes to the Investment Policy must be approved by the Boards, or such committee as may be delegated authority by the Boards from time to time.

The Boards have delegated to the General Counsel and the Deputy General Counsels of the Clearing Agencies the authority to approve certain proposed rule changes of the Clearing Agencies and the filings with respect to such proposed rule changes required by Rule 19b-4 under the Act.<sup>10</sup> Specifically, the Boards have delegated to the General Counsel and Deputy General Counsels of the Clearing Agencies authority to approve (1) proposed rule changes that may be filed pursuant to Section 19(b)(3)(A) of the Act,<sup>11</sup> (2) proposed rule changes that constitute clarifications, corrections or minor changes in the rules of the Clearing Agencies but that will not be filed pursuant to Section

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<sup>10</sup> 17 CFR 240.19b-4.

<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

19(b)(3)(A) of the Act,<sup>12</sup> in each case, other than any rule change where the aggregate annual fees generated as a result of such rule change are anticipated to be more than \$1,000,000 at the time of the filing, and (3) all proposed changes that are subject to an advance notice as required by Rule 19b-4(n) under the Act<sup>13</sup> but do not constitute a change to the rules of Clearing Agencies.

Therefore, the statement within the Investment Policy that “routine” changes to the Investment Policy must be approved jointly by an officer in Treasury and an officer in CCR, and that material changes to the Investment Policy must be approved by the Boards or committees of the Boards is inconsistent with these existing delegations of approval authority. As such, the Clearing Agencies are proposing to amend the Investment Policy to clarify that changes to the Investment Policy may be approved by either (1) the Boards, (2) such Board committees as may be delegated authority by the Boards from time to time pursuant to their charters, or (3), with respect to certain changes, the General Counsel or Deputy General Counsels of the Clearing Agencies, pursuant to authority delegated by the Boards and with the advice and direction of Treasury and CCR.

The proposed change would make the Investment Policy consistent with existing internal delegations of authority and would also facilitate expedited review and approval of changes that may not require the review and approval of the Boards or committees of the Boards.

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<sup>12</sup> Id.

<sup>13</sup> 17 CFR 240.19b-4(n).

b. Annual Approval of Investment Policy by Boards

The Investment Policy currently states that the Boards or such committees as may be delegated authority from time to time shall review the Investment Policy on an annual basis.

Rule 17Ad-22(e)(3) under the Act requires the Clearing Agencies to maintain a sound risk management framework for comprehensively managing the risks that arise in or are borne by the Clearing Agencies, including investment and custody risks.<sup>14</sup> Rule 17Ad-22(e)(3)(i) under the Act requires that the risk management policies, procedures, and systems that are maintained in compliance with Rule 17Ad-22(e)(3) be subject to review on a specified periodic basis and be approved by the Boards annually.<sup>15</sup> As stated above, the Investment Policy governs the management, custody and investment held by the Clearing Agencies, and is maintained in order to manage the Clearing Agencies' investment and custody risks, as required by Rule 17Ad-22(e)(3) under the Act.<sup>16</sup> Therefore, the Investment Policy must be approved by the Boards annually, as required by Rule 17Ad-22(e)(3)(i) under the Act.<sup>17</sup>

The Clearing Agencies are proposing to amend the Investment Policy to provide that the Investment Policy shall be approved annually by the Boards or such committees as may be delegated authority from time to time.<sup>18</sup> The proposed change would align the

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

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

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

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

<sup>18</sup> Id.

governance of the Investment Policy with the applicable requirements of Rule 17Ad-22(e)(3)(i) under the Act.<sup>19</sup>

2. *Process for Identifying External Credit Rating of Potential Investment Counterparties*

One of the responsibilities of CCR under the Investment Policy is to perform credit reviews of potential investment counterparties. The credit review is used to determine if the Clearing Agencies should establish an investment relationship with that entity, and what, if any, limits should be placed on investments with that entity as an investment counterparty. These credit reviews may include, for example, a business description, identification of key risks and any mitigants to those risks, a general financial analysis of the potential counterparty, such counterparty's available external credit ratings, and the recommended investment limit for such counterparty. The Investment Policy sets a minimum external credit rating for potential investment counterparties for specified types of investments. External credit ratings may be assigned by either S&P Global Ratings, Moody's Investors Service, Inc., or Fitch Ratings Inc.

Currently, the Investment Policy states that if there is a single notch discrepancy between available external credit ratings, CCR shall use the more favorable rating available. The Investment Policy further states that, if there is a multiple notch discrepancy between available external credit ratings for a potential investment counterparty, CCR may use its discretion, based on information available to it, in determining the applicable credit rating for its credit review of that counterparty.

The Clearing Agencies are proposing to amend the Investment Policy to remove CCR's discretion that may be used when there is a multiple notch discrepancy between

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<sup>19</sup> Id.

the external credit ratings, and instead require that CCR shall use the rating that is one notch above the lowest available external credit rating for that counterparty.

The Clearing Agencies determined that this approach would be appropriate because credit ratings may be obtained from one of the three credit rating agencies identified above, so there could only be a maximum of three available credit ratings for an entity. As such, under this proposed approach, the middle available rating would be applied where there is a multiple notch discrepancy between available credit ratings.

The Clearing Agencies believe the proposed change would improve the process for applying an external credit rating in connection with credit reviews because it would create a clear and objective approach to identifying the applicable external credit rating in these circumstances by removing CCR's discretion in determining which rating to apply.

3. *Approval Authority for Investments Relationships, Exceeding Investment Limits and Certain Investment Transactions*

The Investment Policy identifies the groups of individuals who have the authority to approve (1) the establishment of an investment relationship with an investment counterparty, (2) investment transactions that exceed applicable investment limits, and (3) investment transactions in high grade corporate debt and U.S. Treasury securities.

The Clearing Agencies are proposing to revise the approval authority in the Investments Policy, as described below.

a. Focus the Approval Authority for Investments Relationships and Exceeding Investment Limits to Managing Director in CCR

The Clearing Agencies are proposing to amend the authority for approving the establishment of investment relationships and investment transactions that exceed investment limits to restrict one of the individuals authorized to provide such approvals to



a Managing Director in CCR, rather than any Managing Director in GCRO, for the reasons described below.

First, with respect to the authority to establish an investment relationship with an investment counterparty, the Investment Policy currently identifies two groups of authorized individuals – “Group A” and “Group B” – and provides that an investment relationship may be approved by either two individuals from Group A acting jointly, or by one individual from Group A and one individual from Group B acting jointly. Currently, Group A includes the Group Chief Risk Officer or a Managing Director in the Financial Risk Management group (the former name of the GCRO).<sup>20</sup>

Second, with respect to approving investment transactions that exceed applicable investment limits, the Investment Policy currently identifies three groups of individuals – “Group A,” “Group B,” and “Group C” – and provides that an investment transaction that exceeds applicable investment limits may be approved by either one individual in Group A and one individual from Group B acting jointly; or one individual in Group A or one individual in Group B, and one individual in Group C, acting jointly. Currently, Group B includes both a Managing Director in GCRO and the Group Chief Risk Officer.

The Clearing Agencies are proposing to limit the Managing Director in GCRO who is authorized to provide these approvals to a Managing Director in the CCR group within GCRO. As described above, CCR is responsible for conducting the credit reviews of potential investment counterparties, and for setting investment limits for investment counterparties. Therefore, a Managing Director in CCR is more closely involved in

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<sup>20</sup> As described below, the Clearing Agencies are proposing to make a technical revision to the Investment Policy to update all references to the Financial Risk Management group, or “FRM,” to the Group Chief Risk Office, or “GCRO.”

conducting credit reviews of potential investment counterparties and setting investment limits that are appropriate based on those reviews, where other Managing Directors within GCRO do not have a role in the administration of the Investment Policy.

Therefore, the Clearing Agencies believe this proposed change is appropriate because it would focus the authorization to an individual who may be more capable of providing an informed authorization when necessary.

The Clearing Agencies are also proposing to provide that a Managing Director in CCR may assign a delegate within CCR with the title of Executive Director or higher, to jointly approve investment transactions that exceed applicable limits in the event a CCR Managing Director is unavailable. The approval of these transactions may be required in a short timeframe. Therefore, the proposed change would allow the Clearing Agencies to obtain these joint approvals from an officer within CCR, when necessary, without unnecessary delay in the event a Managing Director in CCR is not available to provide the requested authorization.

b. Revising Approval Authority for Certain Investment Transactions

The Clearing Agencies are proposing to make two revisions to the approval authority for investment transactions in high grade corporate debt and U.S. Treasury securities, as described below.

Currently, the Investment Policy provides that investment transactions in high grade corporate debt and U.S. Treasury securities where the remaining time to maturity is two years or less must be approved by two individuals, acting jointly, who are identified in a group of individuals that includes both senior level executives and lower level officers. The value of investments that mature on a longer timeframe are subject to

greater uncertainty over that period and such investments are generally viewed as posing greater risk. Therefore, the Investment Policy provides that investment transactions in high grade corporate debt and U.S. Treasury securities where the remaining time to maturity is more than two years must be approved by two individuals, acting jointly, from the same group of individuals who are authorized to approve such investments that mature on a shorter timeframe, so long as at least one of those individuals is a senior level executive.

First, the Clearing Agencies are proposing to revise the scope of investments that the two groups of individuals are authorized to approve. The proposed change would provide the first group of individuals with authority to approve investments, with two of them acting jointly, for a time to maturity of one year or less, and would provide the second group of individuals with authority to approve investments with a time to maturity of greater than one year, and up to a maximum of ten years for investments in U.S. Treasury securities and up to a maximum of five years for investments in high grade corporate debt. This proposed change would provide for a more conservative approach to approving these investments by limiting the investments that may be approved by the first group of authorized individuals to only those that mature on a shorter timeframe, and pose less risk.

Second, the Clearing Agencies are proposing to include an Executive Director in Finance in the first group of individuals, who are authorized to act jointly to approve investment transactions with a remaining time to maturity of one year or less. This proposed change would provide the Clearing Agencies with more flexibility to authorize investment transactions where the time to maturity is one year or less by authorizing an

additional officer to approve this revised set of investments. The Investment Policy would continue to require that at least one of the individuals who approve investments that have a longer time to maturity be a senior level executive.

#### 4. *Technical Revisions*

The Clearing Agencies are proposing to reorganize and reorder certain sections of the Investment Policy, and make other updates, corrections and clarifications, as described below.

##### a. Reordering and Reorganizing Certain Sections of the Investment Policy

First, the Clearing Agencies are proposing to remove Section 1.1, titled “Document Control Information,” from the Investment Policy. The information under this heading would be incorporated into the Overview in Section 1, and this proposed change would simplify the organization of this Section.

Second, the Clearing Agencies are proposing to move the information currently in Section 7 to other sections in the Investment Policy and eliminate Section 7. Currently, Section 7.1 describes the authorizations for establishing investment relationships, and Section 7.2 describes the authorizations for entering into investment transactions. The information currently in Section 7.1 would be moved to a new Section 4.3. This proposed change would revise the Investment Policy so the authorizations for establishing investment relationships appears directly after the description of credit reviews of potential investment counterparties performed by CCR in Section 4.2.

The information currently in Section 7.2 would be moved to Section 6.2. This proposed change would revise the Investment Policy so the authorizations for investment transactions appear in the same Section as the description of the applicable investment

type. As such, Sections 6.2.1, 6.2.2, and 6.2.4, which describe investments in bank deposits, reverse repurchase agreements, and money market mutual funds, respectively, would include a statement that investment transactions in these investment types are authorized pursuant to Section 4.1 of the Investment Policy and no separate approvals for such investment transactions are required. Sections 6.2.3 and 6.2.5, which describe investments in U.S. treasury securities and high-grade corporate debt, respectively, would include a table of the required authorizations for investment transactions in these investment types. The authorizations described in these tables would be amended as described above. The Investment Policy would also be updated to make conforming changes to update internal cross-references to these reorganized Sections.

Third, the Clearing Agencies are proposing to revise Section 6.2.6, which describes hedge transactions. The proposed change would move a statement regarding factors that may be considered when authorizing a hedge transaction to appear above the table of authorizations of those transactions. This proposed change would align Section 6.2.6 to be organized similarly to other subsections within Section 6.2, such that the information regarding authorizations of those transactions appears at the end of the subsection.

The Clearing Agencies believe each of the proposed changes are appropriate. By reorganization the Investment Policy such that sections regarding similar matters appear together, the proposed changes would improve the clarity of the Investment Policy.

b. Other Updates and Technical Revisions

The Clearing Agencies are also proposing to make other updates and technical revisions to the Investment Policy. These technical revisions would, for example, correct

internal cross-references, revise the use of defined terms, and clarify descriptions within the Investment Policy, without changing the substantive statements being revised.

For example, Section 6.2.1 would be revised to include term deposits in a list of types of bank deposit investment transactions that may be executed pursuant to the Investment Policy. While the existing list was intended to be non-exhaustive, the proposed change would clarify that term bank deposits are also permitted. As another example, the Investment Policy would be revised to reflect a change to the name of the DTCC's Financial Risk Management group, or "FRM," to the GCRO.

The Clearing Agencies believe the proposed updates and technical revisions would improve the clarity and accuracy of the Investment Policy and, therefore, would facilitate the execution of the Investment Policy.

## 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 proposed modifications to the Investment Policy are consistent with Section 17A(b)(3)(F) of the Act<sup>21</sup> and Rules 17Ad-22(e)(3)(i) and (16) under the Act,<sup>22</sup> for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of each of the Clearing Agencies be designed to assure the safeguarding of securities and funds which are in the custody or control of each of the Clearing Agencies or for which they are

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<sup>21</sup> 15 U.S.C. 78q-1(b)(3)(F).

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

responsible.<sup>23</sup> The investment guidelines and governance procedures set forth in the Investment Policy are designed to safeguard funds which are in the custody or control of the Clearing Agencies or for which they are responsible. Such protections include, for example, following a prudent and conservative investment philosophy that places the highest priority on maximizing liquidity and risk avoidance. The Clearing Agencies believe each of these proposed changes would help facilitate the effective execution of the Investment Policy pursuant to the guiding principle set forth therein. Therefore, the Clearing Agencies believe the proposed changes would allow the Clearing Agencies to continue to operate the Investment Policy pursuant to a prudent and conservative investment philosophy that assures the safeguarding of securities and funds which are in their custody and control, or for which they are responsible.

First, the Clearing Agencies believe the proposed changes to the Investment Policy governance would improve the processes for maintaining the Investment Policy and ensuring it continues to operate as intended. The proposed changes to reflect the existing delegation of authority to the General Counsel and Deputy General Counsels of the Clearing Agencies to approve certain changes to the Investment Policy would align this process to existing governance and delegations of authority within the Clearing Agencies. This proposed change would permit an expedited review and approval of changes that do not require action by the Boards or Board committees. In this way, the Clearing Agencies believe the proposed change would simplify the steps necessary for the Clearing Agencies to make certain non-material changes to the Investment Policy, subject to required regulatory review and approval of such changes. Meanwhile, the

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<sup>23</sup> 15 U.S.C. 78q-1(b)(3)(F).

Clearing Agencies believe that the proposed change to require annual approval of the Investment Policy would provide for stronger Board oversight and create an important control over the Investment Policy's effectiveness.

Second, the Clearing Agencies believe the proposed change to the process for identifying an applicable external credit rating for potential investment counterparties when there is a multiple notch discrepancy between available ratings would improve the credit reviews of those entities. The proposed change would improve credit reviews by creating a more objective approach to this aspect of those reviews and creating more consistency in the evaluation of these entities. Understanding the risks that may be presented by an investment counterparty is an important aspect of the Investment Policy's guidelines and governance procedures that are designed to safeguard funds which are in the custody or control of the Clearing Agencies or for which they are responsible.

Third, the Clearing Agencies believe the proposed change to certain approval authority within the Investment Policy would both enable the Clearing Agencies to authorize those individuals who are involved with the matters that they may be asked to approve, and would facilitate those approvals by authorizing additional individuals to approve lower risk matters. The proposed change to the approval authority for establishing investment relationships and entering investment transactions that exceed applicable limits to include only Managing Directors in CCR would refine this approval authority to individuals who are involved in these matters, and may be better able to provide an informed approval. The proposed change to the approval authority for investment transactions with maturity time would shift that authority to senior executives for investments that pose greater risk, creating a more conservative approach to those



approvals. The proposed change to authorize Executive Directors in Finance to approve investment transactions with remaining time to maturity of less than one year would facilitate the approval of these transactions that pose less risk to the Clearing Agencies.

Finally, the Clearing Agencies believe the proposed changes to reorganize certain sections within the Investment Policy and the proposed updates and technical revisions to the Investment Policy would improve the clarity and accuracy of the Investment Policy. By creating clearer descriptions, the Clearing Agencies believe these proposed changes would make the Investment Policy more effective in governing the management, custody, and investment of funds of and held by the Clearing Agencies.

For the reasons described above, the Clearing Agencies believe the proposed changes would improve the effectiveness of the Investment Policy and allow the Investment Policy to continue to be administered in alignment with the investment guidelines and governance procedures set forth therein. Given that such guidelines and governance procedures are designed to safeguard funds which are in the custody or control of the Clearing Agencies or for which they are responsible, the Clearing Agencies believe the proposed changes are consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>24</sup>

Rule 17Ad-22(e)(3)(i) requires, in part, that the Clearing Agencies establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing investment and custody risks that arise in or are borne by the Clearing Agencies, which includes risk management policies, procedures, and systems designed to identify, measure, monitor,

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<sup>24</sup>

Id.

and manage the range of risks that arise in or are borne by the Clearing Agencies, that are subject to review on a specified periodic basis and approved by the board of directors annually.<sup>25</sup> The Clearing Agencies are proposing to revise the Investment Policy to require that it be reviewed and approved by the Boards, or an authorized Board Committee, at least annually. The Boards, or an authorized Board Committee, will be provided with a copy of the Investment Policy at a regularly scheduled meeting, along with a memorandum describing any changes that had been made to the Investment Policy since its last annual approval. This proposed change would provide for important oversight of the operation of the Investment Policy and its continued effectiveness in governing the management, custody and investment of funds held by the Clearing Agencies. The proposed change is also designed to align the governance of the Investment Policy with the applicable requirements of Rule 17Ad-22(e)(3)(i) under the Act.<sup>26</sup>

Rule 17Ad-22(e)(16) under the Act requires the Clearing Agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to safeguard the Clearing Agencies' own and their participants' assets, minimize the risk of loss and delay in access to these assets, and invest such assets in instruments with minimal credit, market, and liquidity risks.<sup>27</sup>

The Clearing Agencies believe that the Investment Policy follows a prudent and conservative investment philosophy, placing the highest priority on maximizing liquidity

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<sup>25</sup> 17 CFR 240.17Ad-22(e)(3)(i).

<sup>26</sup> Id.

<sup>27</sup> 17 CFR 240.17Ad-22(e)(16).

and avoiding risk of loss, by requiring the segregation of funds of each Clearing Agency and of types of funds of each Clearing Agency, using external credit ratings in the evaluation of counterparties, and establishing investment limits by counterparty as well as investment type. As originally implemented, the Investment Policy was designed to meet the requirements of Rule 17Ad-22(e)(16) under the Act.<sup>28</sup>

For the reasons stated above, the Clearing Agencies believe that each of the proposed revisions would improve the administration of the Investment Policy and would make the Investment Policy more effective in governing the management, custody, and investment of funds of and held by the Clearing Agencies. In this way, the proposed changes would better allow the Clearing Agencies to maintain these documents in a way that is designed to meet the requirements of Rule 17Ad-22(e)(16). Therefore, the Clearing Agencies believe the proposed revisions would be consistent with the requirements of Rule 17Ad-22(e)(16) under the Act.<sup>29</sup>

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

Each of the Clearing Agencies believes that none of the proposed revisions to the Investment Policy would have any impact, or impose any burden, on competition. The Investment Policy applies equally to the Clearing Fund and Participants Fund deposits, as applicable, of each member of the Clearing Agencies, and establishes a uniform policy at the Clearing Agencies. The proposed changes to the Investment Policy would not affect any changes on the fundamental purpose or operation of this document and, as such, would also not have any impact, or impose any burden, on competition.

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<sup>28</sup> Id.

<sup>29</sup> Id.

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

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

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>30</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>31</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2018-014 on the subject line.

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<sup>30</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>31</sup> 17 CFR 240.19b-4(f).

Paper Comments:

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

All submissions should refer to File Number SR-FICC-2018-014. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2018-014 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>32</sup>

Secretary

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<sup>32</sup> 17 CFR 200.30-3(a)(12).

TEXT OF PROPOSED RULE CHANGE

text indicates proposed added language.

text indicates proposed deleted language.

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PURSUANT TO THE FREEDOM OF INFORMATION ACT**



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