

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 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 checked="" 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 Liquidity Risk Management Framework

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \* Jacqueline Last Name \* Chezar

Title \* Executive Director and Associate General Counsel

E-mail \* jfarinella@dtcc.com

Telephone \* (212) 855-3216 Fax

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date 11/30/2020  
By Nikki Poulos  
(Name \*)

Managing Director and Deputy General Counsel

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 EFFS 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 of Fixed Income Clearing Corporation (“FICC”) is provided hereto as Exhibit 5 and would amend the Clearing Agency Liquidity Risk Management Framework (“Framework”) 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”). Specifically, the proposed rule changes would (1) reflect that a stress testing team (“Stress Testing Team”) has taken over certain responsibilities related to liquidity risk management; (2) simplify the description of the FICC qualifying liquidity resources, which are identical for each of its divisions; (3) reflect the inclusion of the proceeds of NSCC’s issuance and private placement of term debt as an additional NSCC liquidity resource; (4) revise the description of NSCC’s supplemental liquidity deposits to allow for future revisions to this requirement; (5) reflect the reclassification of a stress scenario that assumes the default of multiple participants as an informational stress scenario; and (6) make other revisions in order to clarify and simplify the descriptions within the Framework, as further described below.

(b) Not applicable.

(c) Not applicable.

## 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by FICC management on November 6, 2020 pursuant to authority delegated from FICC’s Board of Directors.

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

### (a) Purpose

The Clearing Agencies adopted the Framework<sup>1</sup> to set forth the manner in which they measure, monitor and manage the liquidity risks that arise in or are borne by each of the Clearing Agencies, including (i) the manner in which each Clearing Agency deploys their respective liquidity tools to meet its settlement obligations on an ongoing and timely basis, and (ii) each applicable Clearing Agency’s use of intraday liquidity.<sup>2</sup> In this way, the Framework describes the liquidity risk management of each of the Clearing Agencies and how the Clearing Agencies meet the applicable requirements of Rule 17Ad-22(e)(7).<sup>3</sup>

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<sup>1</sup> See Securities Exchange Act Release No. 82377 (December 21, 2017), 82 FR 61617 (December 28, 2017) (SR-DTC-2017-004; SR-NSCC-2017-005; SR-FICC-2017-008 (“Initial Filing”).

<sup>2</sup> See 17 CFR 240.17Ad-22(e)(7)(i), (ii), and (iv) through (ix).

<sup>3</sup> Id.

The Clearing Agencies are proposing changes to the Framework that would update, clarify and simplify the descriptions, but would not make any substantive revisions to how the Clearing Agencies manage their liquidity risks and comply with the applicable regulatory requirements. More specifically, the proposed changes would (1) reflect that the Stress Testing Team that has taken over certain responsibilities related to liquidity risk management; (2) simplify the description of the FICC qualifying liquidity resources, which are identical for each of its divisions; (3) reflect the inclusion of the proceeds of NSCC's issuance and private placement of term debt as an additional NSCC liquidity resource; (4) revise the description of NSCC's supplemental liquidity deposits to allow for future revisions to this requirement; (5) reflect the reclassification of a stress scenario that assumes the default of multiple participants as an informational stress scenario; and (6) make other revisions in order to clarify and simplify the descriptions within the Framework. Each of these proposed changes are described in greater detail below.

*i. Proposed Amendments to Reflect Creation of Stress Testing Team*

First, the proposed changes would reflect that the Stress Testing Team within the Group Chief Risk Office of DTCC ("GCRO"),<sup>4</sup> which previously was responsible for market risk stress testing, took over stress testing and other responsibilities related to liquidity risk management in late 2019. This change was intended to centralize stress testing and related responsibilities under one team. Because this team has taken responsibility for certain actions described in the Framework, the proposed changes would identify this team as responsible for those actions. For example, the Stress Testing Team would be identified as responsible for performing daily stress testing of the qualifying liquid resources that are held by each of NSCC and FICC in compliance with Rule 17Ad-22(e)(7)(i), and as responsible for certain actions related to the development and maintenance of stress scenarios.<sup>5</sup> The proposed changes would also identify the Stress Testing Working Group as responsible for reviewing and approving stress scenarios on a monthly basis to determine that they meeting regulatory requirements.

In connection with this proposed change, the Clearing Agencies are also proposing to include a general statement in Section 1 (Executive Summary) of the Framework, that, unless otherwise specified, actions in the Framework related to stress testing are performed by the Stress Testing Team and all other actions described in the Framework are the responsibility of the Liquidity Product Risk Unit. The proposed changes would also revise descriptions of certain actions to remove references to the group that is responsible for those actions. These proposed

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<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 and its other subsidiaries. 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 subsidiary, including the Clearing Agencies.

<sup>5</sup> 17 CFR 240.17Ad-22(e)(7)(i).

changes would simplify the description of these actions, while clarifying the teams responsible for conducting these actions in a general statement within the Framework.

*ii. Proposed Amendments to Simplify the Description of FICC's Liquidity Resources*

Second, the proposed changes would consolidate Sections 5.2.1 and 5.2.2 (in the proposed amended Framework, Section 5.2.2) to simplify the description of FICC's qualifying liquidity resources, which are identical for its Government Securities Division ("GSD") and Mortgage-Backed Securities Division ("MBSD").<sup>6</sup> The qualifying liquidity resources of both GSD and MBSD consist of deposits to their respective Clearing Funds, consisting of both cash and eligible securities,<sup>7</sup> and funds available from their respective rules-based committed Capped Contingency Liquidity Facility programs.<sup>8</sup> The proposed changes would simplify the Framework by consolidating two sections that currently describe identical resources for the two divisions of FICC. The proposed changes would also make conforming changes to section numbers, footnotes, and cross-references in Section 2 (Glossary of Key Terms).

*iii. Proposed Amendments to Include Term Debt as NSCC Liquidity Resource*

Third, the proposed changes would amend Section 5.2.3, which currently describes each of the qualifying liquidity resources of NSCC.<sup>9</sup> NSCC recently began raising additional prefunded liquidity through the issuance and private placement of term debt in the form of medium- and long-term unsecured notes.<sup>10</sup> The proposed change would amend Section 5.2.3 to include a description of the proceeds of these debt issuances as an additional qualifying liquidity resource of NSCC. The proposed change would update this section to accurately identify all qualifying liquidity resources of NSCC.

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<sup>6</sup> "Qualifying liquid resources" are defined in Rule 17Ad-22(a)(14). 17 CFR 240.17Ad-22(a)(14).

<sup>7</sup> Rule 4, Section 5 (Use of Clearing Fund) of the Rulebook of GSD and Rule 4, Section 5 (Use of Clearing Fund) of the Clearing Rules of MBSD, available at <http://dtcc.com/legal/rules-and-procedures>.

<sup>8</sup> Rule 22A, Section 2a (Liquidity Requirements of Netting Members) of the Rulebook of GSD and Rule 17, Section 2a (Capped Contingency Liquidity Facility) of the Clearing Rules of MBSD, available at <http://dtcc.com/legal/rules-and-procedures>.

<sup>9</sup> Supra note 6.

<sup>10</sup> See Securities Exchange Act Release No. 88146 (February 7, 2020), 85 FR 8046 (February 12, 2020) (SR-NSCC-2019-802).

iv. *Proposed Amendments to Revise Description of NSCC Supplemental Liquidity Deposits*

Fourth, the proposed changes would also amend Section 5.2.3 (in the proposed amended Framework, Section 5.2.2) to revise the description of the supplemental liquidity deposits, or “SLD.” Under Rule 4(A) of the NSCC Rules & Procedures (“NSCC Rules”), Members whose default would pose the largest liquidity exposure to NSCC are required to make additional deposits to the NSCC Clearing Fund in the form of SLD to cover that liquidity exposure.<sup>11</sup>

The proposed changes to Section 5.2.3 would remove references to certain aspects of the SLD requirements that NSCC is planning to amend pursuant to a separate proposed rule change to be filed.<sup>12</sup> The proposed changes to Section 5.2.3 would remove these descriptions but would retain a complete and clear description of the SLD requirements for purposes of the Framework. The proposed changes would allow the Framework to accurately describe the SLD requirements, notwithstanding any future changes to those requirements.

v. *Proposed Amendments to Update the Multiple Member Default Stress Scenario*

Fifth, the proposed changes would update Sections 6.2.3 to reflect the recent reclassification of a stress scenario that assumes a simultaneous default of multiple unaffiliated participants or multiple Affiliated Families from a “Regulatory Level 3 Scenario” to an “Informational Level 3 Scenario.” Section 6.2 describes how FICC and NSCC measure the sufficiency of their respective qualifying liquid resources through daily liquidity studies, across a range of stress scenarios in compliance with the requirements under Rule 17Ad-22(e)(7)(i) and (vi)(A).<sup>13</sup> One set of stress scenarios are categorized as Level 3 Scenarios, which are further identified as either (1) Regulatory Stress Scenarios, which are stress scenarios that meet the requirements set forth in Rule 17Ad-22(e)(7)(vi)(A),<sup>14</sup> and (2) Informational Stress Scenarios, which are stress scenarios that are not designed to meet the requirements set forth in Rule 17Ad-22(e)(7)(vi)(A),<sup>15</sup> but are used for both informational and monitoring purposes.

NSCC previously included a stress scenario that assumed the default of multiple participants as a Regulatory Level 3 Scenario, despite the fact that this scenario utilizes parameters and assumptions that exceed the requirements of Rule 17Ad-22(e)(7)(vi)(A).<sup>16</sup>

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<sup>11</sup> Rule 4(A) of the NSCC Rules, available at <http://dtcc.com/legal/rules-and-procedures>.

<sup>12</sup> Such proposed changes to Rule 4(A) of the NSCC Rules would be filed by NSCC pursuant to Section 19(b)(1) of the Act. 15 U.S.C. 78s(b)(1).

<sup>13</sup> 17 CFR 240.17Ad-22(e)(7)(i) and (vi)(A).

<sup>14</sup> 17 CFR 240.17Ad-22(e)(7)(vi)(A).

<sup>15</sup> Id.

<sup>16</sup> Id.

NSCC has reclassified this scenario as an Informational Level 3 Scenario and, as such, it is utilized for informational and monitoring purposes only. The proposed change would reflect this reclassification in Section 6.2.3, where Level 3 Scenarios are described.

vi. *Proposed Amendments to Clarify and Simplify Descriptions in the Framework*

Finally, the proposed changes would make minor updates to certain descriptions in the Framework to clarify and simplify those descriptions. For example, the proposed changes would amend Section 2 (Glossary of Key Terms) to use the term “Group Chief Risk Office” in the definition of the Liquidity Product Risk Unit, instead of using the defined term “GCRO” which is not otherwise defined in the Framework. The proposed changes would also amend Section 2 to update the defined terms of “CP Program”, “Prefunded Liquidity”, and “Term Debt Issuance” in connection with the proposed change to include term debt as an NSCC liquidity resource, as described above.

The proposed changes would also clarify the names of certain groups identified in the Framework. For example, the team that is responsible for market risk management would be referred to as “Market Risk Management” rather than the “Market Risk unit”.

These proposed changes would not make any substantive revisions to the amended descriptions in the Framework but would clarify and simplify those descriptions with immaterial updates.

(b) Statutory Basis

The Clearing Agencies believe that the proposed changes are consistent with Section 17A(b)(3)(F) of the Securities Exchange Act of 1934 (“Act”), for the reasons described below.<sup>17</sup>

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, for the reasons described below.<sup>18</sup> As described above, the proposed changes would update the Framework to (1) reflect a change in the teams responsible for certain actions, (2) include an additional liquidity resource at NSCC, and (3) reflect a change in the classification of one of the stress scenarios used by NSCC and FICC. The proposed changes would also simplify the description of the FICC qualifying liquidity resources, update the description of the NSCC SLD, and make other updates to clarify and simplify descriptions in the Framework. By updating the Framework to reflect these changes, and creating clearer, simpler descriptions, the Clearing Agencies believe the proposed changes would make the Framework more effective in describing liquidity risk management that is conducted by the Clearing Agencies, as described therein.

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

<sup>18</sup> Id.

The Framework describes how the Clearing Agencies carry out its liquidity risk management strategy such that, with respect to FICC and NSCC, they maintain liquid resources sufficient to meet the potential amount of funding required to settle outstanding transactions of a defaulting participant or family of affiliated participants in a timely manner, and with respect to DTC, it maintains sufficient available liquid resources to complete system-wide settlement on each business day, with a high degree of confidence and notwithstanding the failure to settle of the participant or affiliated family of participants with the largest settlement obligation. As such, the Clearing Agencies' liquidity risk management strategies address the Clearing Agencies' maintenance of sufficient liquid resources, which allow them to continue the prompt and accurate clearance and settlement of securities and can continue to assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible notwithstanding the default of a participant or family of affiliated participants.

The proposed changes to update the Framework and improve the clarity and accuracy of the descriptions of liquidity risk management functions within the Framework would assist the Clearing Agencies in carrying out these functions. Therefore, the Clearing Agencies believe the proposed changes are consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>19</sup>

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

The Clearing Agencies do not believe the proposed changes to the Framework described above would have any impact, or impose any burden, on competition. As described above, the proposed changes would update the Framework, and would improve the clarity and accuracy of the descriptions of the Clearing Agencies' liquidity risk management functions. Therefore, the proposed changes are technical and non-material in nature, relating mostly to the operation of the Framework rather than the liquidity risk management functions described therein. As such, the Clearing Agencies do not believe that the proposed rule changes would have any impact on competition.

#### **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 Securities and Exchange Commission ("Commission") of any written comments received by the Clearing Agencies.

#### **6. Extension of Time Period for Commission Action**

Not applicable.

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Id.



**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 changes are to take effect pursuant to paragraph A of Section 19(b)(3) of the Act.<sup>20</sup>

(b) The proposed rule change (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. As noted above, the proposed changes are technical and non-material in nature. Therefore, these proposed changes would not significantly affect the protection of investors or the public interest, nor would these changes impose any significant burden on competition, for the reasons also described above.

The Clearing Agencies have given the Commission written notice of their intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.<sup>21</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act normally does not become operative prior to 30 days after the date of filing.<sup>22</sup> Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest.<sup>23</sup> The Clearing Agencies believe that it would be appropriate for the proposed changes to become operative on a shorter timeframe in order to allow the Clearing Agencies to maintain clear and accurate internal procedures, and avoid any errors in carrying out the important responsibilities described therein. As the Framework is an internal facing document, the Clearing Agencies do not believe that allowing these proposed changes to become operative on a shorter timeframe would have any impact on the protection of investors or be inconsistent with the public interest. Therefore, the Clearing Agencies respectfully request the Commission waive the 30-day operative delay so that the Clearing Agencies may modify the Framework without delay.

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. If the Commission takes such action, the

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>21</sup> 17 CFR 240.19b-4(f)(6).

<sup>22</sup> Id.

<sup>23</sup> 17 CFR 240.19b-4(f)(6)(iii).

Commission will institute proceedings to determine whether the proposed rule should be approved or disapproved.

(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 of 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 – Liquidity Risk Management Framework (marked). *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-FICC-2020-018)

[DATE]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Clearing Agency Liquidity Risk Management Framework

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 November \_\_, 2020, 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)(6) 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 Liquidity Risk Management Framework (“Framework”) 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”). Specifically, the

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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)(6).

proposed rule changes would (1) reflect that a stress testing team (“Stress Testing Team”) has taken over certain responsibilities related to liquidity risk management; (2) simplify the description of the FICC qualifying liquidity resources, which are identical for each of its divisions; (3) reflect the inclusion of the proceeds of NSCC’s issuance and private placement of term debt as an additional NSCC liquidity resource; (4) revise the description of NSCC’s supplemental liquidity deposits to allow for future revisions to this requirement; (5) reflect the reclassification of a stress scenario that assumes the default of multiple participants as an informational stress scenario; and (6) make other revisions in order to clarify and simplify the descriptions within the Framework, as further described 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 adopted the Framework<sup>5</sup> to set forth the manner in which they measure, monitor and manage the liquidity risks that arise in or are borne by each of the Clearing Agencies, including (i) the manner in which each Clearing Agency deploys their respective liquidity tools to meet its settlement obligations on an ongoing and timely basis, and (ii) each applicable Clearing Agency's use of intraday liquidity.<sup>6</sup> In this way, the Framework describes the liquidity risk management of each of the Clearing Agencies and how the Clearing Agencies meet the applicable requirements of Rule 17Ad-22(e)(7).<sup>7</sup>

The Clearing Agencies are proposing changes to the Framework that would update, clarify and simplify the descriptions, but would not make any substantive revisions to how the Clearing Agencies manage their liquidity risks and comply with the applicable regulatory requirements. More specifically, the proposed changes would (1) reflect that the Stress Testing Team that has taken over certain responsibilities related to liquidity risk management; (2) simplify the description of the FICC qualifying liquidity resources, which are identical for each of its divisions; (3) reflect the inclusion of the proceeds of NSCC's issuance and private placement of term debt as an additional NSCC liquidity resource; (4) revise the description of NSCC's supplemental liquidity deposits to

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<sup>5</sup> See Securities Exchange Act Release No. 82377 (December 21, 2017), 82 FR 61617 (December 28, 2017) (SR-DTC-2017-004; SR-NSCC-2017-005; SR-FICC-2017-008 ("Initial Filing")).

<sup>6</sup> See 17 CFR 240.17Ad-22(e)(7)(i), (ii), and (iv) through (ix).

<sup>7</sup> Id.

allow for future revisions to this requirement; (5) reflect the reclassification of a stress scenario that assumes the default of multiple participants as an informational stress scenario; and (6) make other revisions in order to clarify and simplify the descriptions within the Framework. Each of these proposed changes are described in greater detail below.

*i. Proposed Amendments to Reflect Creation of Stress Testing Team*

First, the proposed changes would reflect that the Stress Testing Team within the Group Chief Risk Office of DTCC (“GCRO”),<sup>8</sup> which previously was responsible for market risk stress testing, took over stress testing and other responsibilities related to liquidity risk management in late 2019. This change was intended to centralize stress testing and related responsibilities under one team. Because this team has taken responsibility for certain actions described in the Framework, the proposed changes would identify this team as responsible for those actions. For example, the Stress Testing Team would be identified as responsible for performing daily stress testing of the qualifying liquid resources that are held by each of NSCC and FICC in compliance with Rule 17Ad-22(e)(7)(i), and as responsible for certain actions related to the development and maintenance of stress scenarios.<sup>9</sup> The proposed changes would also identify the

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<sup>8</sup> The parent company of the Clearing Agencies is The Depository Trust & Clearing Corporation (“DTCC”). DTCC operates on a shared services model with respect to the Clearing Agencies and its other subsidiaries. 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 subsidiary, including the Clearing Agencies.

<sup>9</sup> 17 CFR 240.17Ad-22(e)(7)(i).

Stress Testing Working Group as responsible for reviewing and approving stress scenarios on a monthly basis to determine that they meeting regulatory requirements.

In connection with this proposed change, the Clearing Agencies are also proposing to include a general statement in Section 1 (Executive Summary) of the Framework, that, unless otherwise specified, actions in the Framework related to stress testing are performed by the Stress Testing Team and all other actions described in the Framework are the responsibility of the Liquidity Product Risk Unit. The proposed changes would also revise descriptions of certain actions to remove references to the group that is responsible for those actions. These proposed changes would simplify the description of these actions, while clarifying the teams responsible for conducting these actions in a general statement within the Framework.

*ii. Proposed Amendments to Simplify the Description of FICC's Liquidity Resources*

Second, the proposed changes would consolidate Sections 5.2.1 and 5.2.2 (in the proposed amended Framework, Section 5.2.2) to simplify the description of FICC's qualifying liquidity resources, which are identical for its Government Securities Division ("GSD") and Mortgage-Backed Securities Division ("MBSD").<sup>10</sup> The qualifying liquidity resources of both GSD and MBSD consist of deposits to their respective Clearing Funds, consisting of both cash and eligible securities,<sup>11</sup> and funds available from their respective rules-based committed Capped Contingency Liquidity Facility

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<sup>10</sup> "Qualifying liquid resources" are defined in Rule 17Ad-22(a)(14). 17 CFR 240.17Ad-22(a)(14).

<sup>11</sup> Rule 4, Section 5 (Use of Clearing Fund) of the Rulebook of GSD and Rule 4, Section 5 (Use of Clearing Fund) of the Clearing Rules of MBSD, available at <http://dtcc.com/legal/rules-and-procedures>.

programs.<sup>12</sup> The proposed changes would simplify the Framework by consolidating two sections that currently describe identical resources for the two divisions of FICC. The proposed changes would also make conforming changes to section numbers, footnotes, and cross-references in Section 2 (Glossary of Key Terms).

*iii. Proposed Amendments to Include Term Debt as NSCC Liquidity Resource*

Third, the proposed changes would amend Section 5.2.3, which currently describes each of the qualifying liquidity resources of NSCC.<sup>13</sup> NSCC recently began raising additional prefunded liquidity through the issuance and private placement of term debt in the form of medium- and long-term unsecured notes.<sup>14</sup> The proposed change would amend Section 5.2.3 to include a description of the proceeds of these debt issuances as an additional qualifying liquidity resource of NSCC. The proposed change would update this section to accurately identify all qualifying liquidity resources of NSCC.

*iv. Proposed Amendments to Revise Description of NSCC Supplemental Liquidity Deposits*

Fourth, the proposed changes would also amend Section 5.2.3 (in the proposed amended Framework, Section 5.2.2) to revise the description of the supplemental liquidity deposits, or “SLD.” Under Rule 4(A) of the NSCC Rules & Procedures

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<sup>12</sup> Rule 22A, Section 2a (Liquidity Requirements of Netting Members) of the Rulebook of GSD and Rule 17, Section 2a (Capped Contingency Liquidity Facility) of the Clearing Rules of MBSD, available at <http://dtcc.com/legal/rules-and-procedures>.

<sup>13</sup> Supra note 10.

<sup>14</sup> See Securities Exchange Act Release No. 88146 (February 7, 2020), 85 FR 8046 (February 12, 2020) (SR-NSCC-2019-802).



(“NSCC Rules”), Members whose default would pose the largest liquidity exposure to NSCC are required to make additional deposits to the NSCC Clearing Fund in the form of SLD to cover that liquidity exposure.<sup>15</sup>

The proposed changes to Section 5.2.3 would remove references to certain aspects of the SLD requirements that NSCC is planning to amend pursuant to a separate proposed rule change to be filed.<sup>16</sup> The proposed changes to Section 5.2.3 would remove these descriptions but would retain a complete and clear description of the SLD requirements for purposes of the Framework. The proposed changes would allow the Framework to accurately describe the SLD requirements, notwithstanding any future changes to those requirements.

v. *Proposed Amendments to Update the Multiple Member Default Stress Scenario*

Fifth, the proposed changes would update Sections 6.2.3 to reflect the recent reclassification of a stress scenario that assumes a simultaneous default of multiple unaffiliated participants or multiple Affiliated Families from a “Regulatory Level 3 Scenario” to an “Informational Level 3 Scenario.” Section 6.2 describes how FICC and NSCC measure the sufficiency of their respective qualifying liquid resources through daily liquidity studies, across a range of stress scenarios in compliance with the requirements under Rule 17Ad-22(e)(7)(i) and (vi)(A).<sup>17</sup> One set of stress scenarios are

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<sup>15</sup> Rule 4(A) of the NSCC Rules, available at <http://dtcc.com/legal/rules-and-procedures>.

<sup>16</sup> Such proposed changes to Rule 4(A) of the NSCC Rules would be filed by NSCC pursuant to Section 19(b)(1) of the Act. 15 U.S.C. 78s(b)(1).

<sup>17</sup> 17 CFR 240.17Ad-22(e)(7)(i) and (vi)(A).

categorized as Level 3 Scenarios, which are further identified as either (1) Regulatory Stress Scenarios, which are stress scenarios that meet the requirements set forth in Rule 17Ad-22(e)(7)(vi)(A),<sup>18</sup> and (2) Informational Stress Scenarios, which are stress scenarios that are not designed to meet the requirements set forth in Rule 17Ad-22(e)(7)(vi)(A),<sup>19</sup> but are used for both informational and monitoring purposes.

NSCC previously included a stress scenario that assumed the default of multiple participants as a Regulatory Level 3 Scenario, despite the fact that this scenario utilizes parameters and assumptions that exceed the requirements of Rule 17Ad-22(e)(7)(vi)(A).<sup>20</sup> NSCC has reclassified this scenario as an Informational Level 3 Scenario and, as such, it is utilized for informational and monitoring purposes only. The proposed change would reflect this reclassification in Section 6.2.3, where Level 3 Scenarios are described.

*vi. Proposed Amendments to Clarify and Simplify Descriptions in the Framework*

Finally, the proposed changes would make minor updates to certain descriptions in the Framework to clarify and simplify those descriptions. For example, the proposed changes would amend Section 2 (Glossary of Key Terms) to use the term “Group Chief Risk Office” in the definition of the Liquidity Product Risk Unit, instead of using the defined term “GCRO” which is not otherwise defined in the Framework. The proposed changes would also amend Section 2 to update the defined terms of “CP Program”,

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<sup>18</sup> 17 CFR 240.17Ad-22(e)(7)(vi)(A).

<sup>19</sup> Id.

<sup>20</sup> Id.

“Prefunded Liquidity”, and “Term Debt Issuance” in connection with the proposed change to include term debt as an NSCC liquidity resource, as described above.

The proposed changes would also clarify the names of certain groups identified in the Framework. For example, the team that is responsible for market risk management would be referred to as “Market Risk Management” rather than the “Market Risk unit”.

These proposed changes would not make any substantive revisions to the amended descriptions in the Framework but would clarify and simplify those descriptions with immaterial updates.

## 2. Statutory Basis

The Clearing Agencies believe that the proposed changes are consistent with Section 17A(b)(3)(F) of the Act, for the reasons described below.<sup>21</sup>

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, for the reasons described below.<sup>22</sup> As described above, the proposed changes would update the Framework to (1) reflect a change in the teams responsible for certain actions, (2) include an additional liquidity resource at NSCC, and (3) reflect a change in the classification of one of the stress scenarios used by NSCC and FICC. The proposed changes would also simplify the description of the FICC qualifying liquidity resources, update the description of the NSCC SLD, and make other updates to clarify and simplify descriptions in the

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

<sup>22</sup> Id.

Framework. By updating the Framework to reflect these changes, and creating clearer, simpler descriptions, the Clearing Agencies believe the proposed changes would make the Framework more effective in describing liquidity risk management that is conducted by the Clearing Agencies, as described therein.

The Framework describes how the Clearing Agencies carry out its liquidity risk management strategy such that, with respect to FICC and NSCC, they maintain liquid resources sufficient to meet the potential amount of funding required to settle outstanding transactions of a defaulting participant or family of affiliated participants in a timely manner, and with respect to DTC, it maintains sufficient available liquid resources to complete system-wide settlement on each business day, with a high degree of confidence and notwithstanding the failure to settle of the participant or affiliated family of participants with the largest settlement obligation. As such, the Clearing Agencies' liquidity risk management strategies address the Clearing Agencies' maintenance of sufficient liquid resources, which allow them to continue the prompt and accurate clearance and settlement of securities and can continue to assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible notwithstanding the default of a participant or family of affiliated participants.

The proposed changes to update the Framework and improve the clarity and accuracy of the descriptions of liquidity risk management functions within the Framework would assist the Clearing Agencies in carrying out these functions.

Therefore, the Clearing Agencies believe the proposed changes are consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>23</sup>

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

The Clearing Agencies do not believe the proposed changes to the Framework described above would have any impact, or impose any burden, on competition. As described above, the proposed changes would update the Framework, and would improve the clarity and accuracy of the descriptions of the Clearing Agencies' liquidity risk management functions. Therefore, the proposed changes are technical and non-material in nature, relating mostly to the operation of the Framework rather than the liquidity risk management functions described therein. As such, the Clearing Agencies do not believe that the proposed rule changes would have any impact on competition.

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

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

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

Because the foregoing proposed rule change does not:

- (i) significantly affect the protection of investors or the public interest;
- (ii) impose any significant burden on competition; and

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<sup>23</sup>

Id.

(iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>24</sup> and Rule 19b-4(f)(6) thereunder.<sup>25</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-2020-018 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-FICC-2020-018. This file number should be included on the subject line if e-mail is used. To help the Commission process

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<sup>24</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>25</sup> 17 CFR 240.19b-4(f)(6).

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-2020-018 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>26</sup>

Secretary

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<sup>26</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

**Bold and underlined** text indicates proposed added language.

**~~Bold and strikethrough~~** text indicates proposed deleted language.

**Clearing Agency Liquidity Risk Management Framework**



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