

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 410	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2020 - * 012	Amendment No. (req. for Amendments *)
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Filing by National Securities Clearing Corporation
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input 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 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 07/07/2020	Managing Director and Deputy General Counsel
By Nikki Poulos	
(Name *)	

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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 of National Securities Clearing Corporation (“NSCC”) is provided hereto as Exhibit 5 and would amend the Clearing Agency Risk Management Framework (“Risk Management Framework” or “Framework”) of NSCC and its affiliates, The Depository Trust Company (“DTC”) and Fixed Income Clearing Corporation (“FICC,” and together with NSCC and DTC, the “Clearing Agencies”). Specifically, the proposed rule change would (1) include a description of a set of policies that addresses the Clearing Agencies’ compliance with Rule 17Ad-22(e)(22) of the Standards for Covered Clearing Agencies (“Standards”), under the Securities Exchange Act of 1934 (“Act”),¹ (2) update the Risk Management Framework to reflect recent changes to certain processes and other matters described in the Framework, and changes to the status of documents identified in the Framework; and (3) clarify the descriptions of certain matters within the Framework to improve comprehensiveness and correct errors, as further described below.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Risk Committee of the Board of Directors of NSCC at meetings duly called and held on September 12, 2018 and on September 10, 2019.

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 Risk Management Framework² to provide an outline for how each of the Clearing Agencies (i) maintains a well-founded, clear, transparent and enforceable legal basis for each aspect of its activities; (ii) comprehensively manages legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by it; (iii) identifies, monitors, and manages risks related to links it establishes with one or more clearing agencies, financial market utilities, or trading markets; and (iv) meets the requirements of its participants and the markets it serves efficiently and effectively. In this way, the Risk Management Framework currently supports the Clearing Agencies’ compliance with Rules 17Ad-22(e)(1), (3), (20) and (21) of the Standards,³ as described in the Initial Filing. In addition to setting forth the manner in which each of the Clearing Agencies addresses these

¹ 17 CFR 240.17Ad-22(e)(22).

² See Securities Exchange Act Release No. 81635 (September 15, 2017), 82 FR 44224 (September 21, 2017) (SR-DTC-2017-013; SR-NSCC-2017-012; SR-FICC-2017-016) (“Initial Filing”).

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

requirements, the Risk Management Framework also contains a section titled “Framework Ownership and Change Management” that, among other matters, describes the Framework ownership and the required governance process for review and approval of changes to the Framework. In connection with the annual review and approval of the Framework by the Board of Directors of each of NSCC, DTC and FICC (each a “Board” and collectively, the “Boards”), the Clearing Agencies are proposing to make certain revisions to the Framework.

The proposed changes would add a new Section 4.4 to describe a policy and a communication standard document that support the Clearing Agencies’ compliance with Rule 17Ad-22(e)(22), which requires the Clearing Agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, and settlement.⁴

The proposed changes would also update the Risk Management Framework to reflect (1) a change to the name of the Vendor Risk Management group to the Third Party Risk Management group; (2) a change to the format of the Balanced Business Scorecard, which is an internal performance management tool used to measure the effectiveness of various aspects of the operations of The Depository Trust & Clearing Corporation (“DTCC”) and its subsidiaries, including the Clearing Agencies; and (3) the filing of certain documents identified in the Framework, pursuant to Section 19(b)(1) of the Act,⁵ and the rules thereunder, and Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, entitled the Payment, Clearing, and Settlement Supervision Act of 2010,⁶ and the rules thereunder (collectively, “Filing Requirements”), as described in greater detail below.

The proposed changes would also clarify and enhance the descriptions in the Risk Management Framework to (1) identify the requirement of Rule 17Ad-22(e)(3)(i) under the Act that the Framework be reviewed and approved by the Boards on an annual basis;⁷ (2) identify the role of the DTCC Legal Department in supporting the management of legal risks that arise in or are borne by the Clearing Agencies; (3) enhance the description of the DTCC Risk Department as “Second Line of Defense;” (4) enhance the description of the DTCC Internal Audit Department as “Third Line of Defense;” (5) enhance the description of a policy relating to the establishment and governance of internal management committees; (6) enhance the description of the processes designed to maintain comprehensive policies, procedures and other documents; (7) clarify that certain activities described in the Framework that relate to the public disclosure of material information, including market data, address the Clearing Agencies’ compliance with Rule 17Ad-22(e)(23) under the Act;⁸ (8) enhance the description of the management of systemic

⁴ 17 CFR 240.17Ad-22(e)(22).

⁵ 15 U.S.C. 78s(b)(1).

⁶ 12 U.S.C. 5465(e)(1).

⁷ 17 CFR 240.17Ad-22(e)(3)(i).

⁸ 17 CFR 240.17Ad-22(e)(23).

risks by describing the role of the Systemic Risk Council; (9) correct a sentence by removing an unnecessary phrase; and (10) enhance the descriptions of certain actions by removing the indication that the Clearing Agencies have discretion in engaging in those actions.

Finally, the proposed changes would correct an error in the Risk Management Framework to identify the Audit Committees of the Boards as the committees to which the DTCC Internal Audit Department has a direct reporting line. Each of these proposed changes is described below.

i. Proposed Amendments to Describe Policies that Address Compliance with Rule 17Ad-22(e)(22)

First, the proposed changes would add a new Section 4.4 to the Framework to describe a policy maintained by the Clearing Agencies to use and accommodate relevant internationally accepted communication procedures and standards to facilitate efficient payment, clearing, and settlement, to support the Clearing Agencies' compliance with Rule 17Ad-22(e)(22).⁹

The policy describes how the communication standards and data formats that are currently used by the Clearing Agencies for payment, clearing, and settlement are regarded as accepted industry standards for transactions processed through the Clearing Agencies. The policy also provides that the Clearing Agencies would accommodate new industry standards that are considered internationally accepted communication procedures and standards. The new Section 4.4 would also state that the Clearing Agencies maintain a communication standard document that supports this policy.

The Clearing Agencies are proposing to amend the Risk Management Framework to adopt a new Section 4.4 that would describe these documents, which support the Clearing Agencies' compliance with Rule 17Ad-22(e)(22).¹⁰

ii. Proposed Amendments to Update the Framework

Second, the proposed changes would update the Risk Management Framework to reflect recent developments with respect to certain processes and other matters described in the Framework, and changes to the status of documents described in the Framework, as described below.

1. Proposed Change to Identify Third Party Risk Management

Section 4 of the Risk Management Framework outlines ways in which each of the Clearing Agencies manages certain risks that arise in or are borne by it. Specifically, Section 4.2 describes the management of risks related to material interdependencies and external links that may be established by the Clearing Agencies. The Clearing Agencies represent that management of risks presented by vendors and other material service providers is guided by a function within

⁹ 17 CFR 240.17Ad-22(e)(22).

¹⁰ Id.

the Operational Risk Management group within the Group Chief Risk Office . This function was previously referred to as “Vendor Risk Management.” While the role and responsibilities of this risk management function have not changed, its name has recently been changed to “Third Party Risk Management” to clarify that the function covers any material third party service provider that provides a service to a DTCC entity.

The Clearing Agencies are proposing to amend Section 4.2.1 of the Risk Management Framework to reflect this name change and to clarify that the function covers any material third party service provider that provides a service to a DTCC entity by adding “Third Party” as a new defined term. The Clearing Agencies are also proposing to identify the existing policy and procedure that is maintained to manage these risks.

2. Proposed Change to Description of Balanced Business Scorecard

Section 4.3 of the Risk Management Framework addresses certain processes implemented by the Clearing Agencies in order to be efficient and effective in meeting the requirements of their respective participants and the markets they serve.¹¹ One of the methods the Clearing Agencies use to meet these requirements is the periodic creation of a Balanced Business Scorecard, which provides insight into the effectiveness of the Clearing Agencies’ operations, information technology service levels, financial performance, human capital, and their respective participants’ experience.

Previously, a Balanced Business Scorecard (referred to as the “Core Balance Business Scorecard”) was created for the Clearing Agencies, and a separate Balanced Business Scorecard was created for the other subsidiaries of DTCC. Recently, these two tools merged, and only one Balanced Business Scorecard (now referred to as the “DTCC Balanced Business Scorecard”) is created, which addresses DTCC and each of its subsidiaries, including each of the Clearing Agencies. While the new, enterprise-wide Balanced Business Scorecard reports its conclusions on a less granular, enterprise-wide basis, it is created using the same set of metrics as the legacy Clearing Agencies version. Therefore, the Balanced Business Scorecard continues to support the Clearing Agencies’ compliance with the requirements of Rule 17Ad-22(e)(21) under the Act.¹² The Balanced Business Scorecard now reports those metrics in the context of the DTCC enterprise, at a less granular level.

The Clearing Agencies are proposing to amend Section 4.3 of the Risk Management Framework to reflect the change in format of the Balanced Business Scorecard described above.

¹¹ Such processes support the Clearing Agencies’ compliance with the requirements of Rule 17Ad-22(e)(21) under the Act. 17 CFR 240.17Ad-22(e)(21).

¹² Id.

3. Proposed Change to Description of Certain Documents to Reflect Filing Pursuant to Filing Requirements

Following the adoption of the Risk Management Framework, certain documents that are identified in the Framework were filed pursuant to the Filing Requirements. The Clearing Agencies are proposing to revise the descriptions of these documents to reflect this change.

Section 3.3 of the Framework describes certain frameworks that are maintained by the Clearing Agencies and provide an outline for certain policies and procedures that address, in whole or in part, the management of operational, liquidity, credit, market, collateral, and other risks. This section identified five such frameworks, the Clearing Agency Operational Risk Management Framework, the Clearing Agency Liquidity Risk Management Framework, the Clearing Agency Securities Valuation Framework, the Clearing Agency Stress Testing Framework, and the Clearing Agency Model Risk Management Framework. Each of these frameworks has been filed pursuant to the applicable Filing Requirements and adopted by the Clearing Agencies.¹³ The Clearing Agencies are proposing to update Section 3.3 to reflect this change.

Section 5 of the Risk Management Framework describes the plans that are maintained by each of the Clearing Agencies for their recovery or orderly wind-down (“R&W Plans”). The R&W Plans were still in development when the Framework was adopted, but have since been finalized, approved by the Boards, filed pursuant to the Filing Requirements, and adopted by the Clearing Agencies.¹⁴ Therefore, the Clearing Agencies are proposing to update Section 5 to reflect these developments, and to describe the ongoing governance of the R&W Plans.

¹³ See Securities Exchange Act Release Nos. 81745 (September 28, 2017), 82 FR 46332 (October 4, 2017) (SR-DTC-2017-014; SR-NSCC-2017-013; SR-FICC-2017-017) (Operational Risk Management Framework); 82377 (December 21, 2017), 82 FR 61617 (December 28, 2017) (SR-DTC-2017-004; SR-NSCC-2017-005; SR-FICC-2017-008) (Liquidity Risk Management Framework); 82006 (November 2, 2017), 82 FR 51892 (November 8, 2017) (SR-DTC-2017-016; SR-NSCC-2017-016; SR-FICC-2017-020) (Securities Valuation Framework); 82368 (December 19, 2017), 82 FR 61082 (December 26, 2017) (SR-DTC-2017-005; SR-FICC-2017-009; SR-NSCC-2017-006) (Stress Testing Framework); and 81485 (August 25, 2017), 82 FR 41433 (August 31, 2017) (SR-DTC-2017-008; SR-FICC-2017-014; SR-NSCC-2017-008) (Model Risk Management Framework).

¹⁴ See Securities Exchange Act Release Nos. 83972 (August 28, 2018), 83 FR 44964 (September 4, 2018) (SR-DTC-2017-021); 83953 (August 27, 2018), 83 FR 44381 (August 30, 2018) (SR-DTC-2017-803); 83974 (August 28, 2018), 83 FR 44988 (September 4, 2018) (SR-NSCC-2017-017); 83955 (August 27, 2018), 83 FR 44340 (August 30, 2018) (SR-NSCC-2017-805); 83973 (August 28, 2018), 83 FR 44942

iii. *Proposed Amendments to Clarify, Enhance, and Correct Descriptions in the Framework*

Finally, the proposed changes would enhance the descriptions of certain matters within the Risk Management Framework to improve its clarity and comprehensiveness and correct an error, as described below.

1. Proposed Change to Correct Annual Approval of Framework by Boards

Section 2 of the Risk Management Framework addresses the Framework's ownership and change management. This section currently states that the Framework should be reviewed by the document owner no less frequently than annually but does not specifically identify the requirement that the Framework also be approved by the Boards on an annual basis. The Clearing Agencies are proposing to correct the Framework to include the requirement that the Framework be approved by the Boards, or a duly authorized committee of the Boards, annually.

Rule 17Ad-22(e)(3) under the Act requires that the Clearing Agencies 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.¹⁵ 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.¹⁶ As stated above, the Framework provides an outline for how each of the Clearing Agencies comprehensively manages legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by it, as required by Rule 17Ad-22(e)(3) under the Act.¹⁷ Therefore, the Risk Management Framework is reviewed and approved by the Boards annually, as required by Rule 17Ad-22(e)(3)(i) under the Act.¹⁸

The Clearing Agencies are proposing to amend Section 2 of the Framework to state that the Framework shall be approved by the Boards, or a duly authorized committee of the Boards, annually. The proposed change would correct the Framework to include this requirement, which is aligned with the applicable requirements of Rule 17Ad-22(e)(3)(i) under the Act.¹⁹

(September 4, 2018) (SR-FICC-2017-021); 83954 (August 27, 2018), 83 FR 44361 (August 30, 2018) (SR-FICC-2017-805).

¹⁵ 17 CFR 240.17Ad-22(e)(3).

¹⁶ 17 CFR 240.17Ad-22(e)(3)(i).

¹⁷ 17 CFR 240.17Ad-22(e)(3).

¹⁸ 17 CFR 240.17Ad-22(e)(3)(i).

¹⁹ Id.

2. Proposed Change to Identify DTCC Legal Department’s Role in Management of Clearing Agencies’ Legal Risks

Section 3.1 of the Risk Management Framework describes the “three lines of defense” approach adopted by each of the Clearing Agencies for identifying, assessing, measuring, monitoring, mitigating, and reporting the risks that arise in or are borne by it. Currently, this section outlines the role of each line of defense, and specifically describes the roles of the DTCC Risk Department (“Risk Department”) and DTCC Internal Audit Department (“Internal Audit”) within this risk management approach. The DTCC Legal Department (“Legal Department”) also plays a particular role in the three lines of defense approach by supporting each line of defense in the management of legal risks.

While the Legal Department is currently identified as part of the control functions that form the second line of defense in Section 3.1.2, its particular role is not separately described. Therefore, the Clearing Agencies are proposing to update the introduction of Section 3.1 to state that the Legal Department supports each line of defense in the management of legal risks. This proposed change would more clearly describe the particular role of the Legal Department in this risk management approach.

3. Proposed Change to Enhance Description of DTCC’s Risk Department as “Second Line of Defense” in Risk Management

As stated above, Section 3.1 of the Risk Management Framework describes the “three lines of defense” approach to risk management adopted by the Clearing Agencies. Section 3.1.2 describes the particular role of the Risk Department as the second line of defense within this risk management approach. The Clearing Agencies are proposing to amend this Section 3.1.2 to enhance the description of the Risk Department’s role, including by providing details relating to the role of the Operational Risk Management group within the Risk Department. The proposed amendments would describe how the Operational Risk Management group addresses and escalates incidents based on a risk rating of those incidents. In addition, the proposed change would clarify the description relating to the procedures, processes, tools, mechanisms, analyses, and testing controls employed by the Risk Department and indicate that such procedures, etc. are subject to the parameters set forth in Section 3.3, which discusses the Filing Requirements and document standards relating to policies, procedures, frameworks and certain related documents. In addition, the Clearing Agencies are proposing to add a defined term in Section 3.1 to reflect that the Risk Department refers to the Risk Department of DTCC. The proposed changes would more clearly describe the particular role of the Risk Department in this risk management approach.

4. Proposed Change to Enhance Description of DTCC’s Internal Audit Department as “Third Line of Defense” in Risk Management

Section 3.1.3 of the Risk Management Framework describes the particular role of Internal Audit as the third line of defense within the risk management approach. The Clearing Agencies are proposing to amend this Section 3.1.3 to enhance the description of Internal Audit’s role, including by providing a clearer description of the responsibilities of Internal Audit, making grammatical changes to certain descriptions to improve readability, and removing references to

Internal Audit as providing an advisory role to the Clearing Agencies. By removing references to advisory services, the proposed changes would conform the Risk Management Framework to the charter of the Audit Committees of the Boards, where similar changes have been made to reinforce the group's role as the third line of defense in risk management and its independence and objectivity in the performance of assurance services. In addition, the Clearing Agencies are proposing to add a defined term in Section 3.1 to clarify that Internal Audit refers to the Internal Audit Department of DTCC.

5. Proposed Change to Enhance Description of Policy Regarding Management Committees and Oversight

Section 3.2 of the Risk Management Framework states that a set of senior management committees provides oversight of various aspects of the Clearing Agencies' activities, including risk management, and describes the policy that sets forth the requirements for establishing and governing these committees. The Clearing Agencies are proposing to amend Section 3.2 by including a reference to the described document and providing a clearer and more complete description of the contents of this policy and the ongoing governance requirements of senior management committees. The proposed changes would not make any substantive changes to this description.

6. Proposed Change to Enhance Description of Management of Policies, Procedures, and Other Documents

Section 3.3.1 of the Risk Management Framework states that the Clearing Agencies maintain comprehensive policies and procedures designed to identify, measure, monitor and manage the risks that arise in or are borne by the Clearing Agencies, and describes a set of standards the Clearing Agencies have established for creating and managing these documents. The Clearing Agencies are proposing to amend the description of these standards. The proposed amendments to Section 3.3.1 would re-word the descriptions of these standards by, for example, more clearly describing the governance of these documents, how these standards provide guidance on reviews of these documents by document owners, and the role of the document owners in adhering to these standards. The proposed changes would not make any substantive changes to this description.

7. Proposed Change to Clarify Regulatory Basis of Certain Public Disclosures

Section 4.1 of the Risk Management Framework states that the Clearing Agencies provide their respective participants with information and incentives to enable them, and, through them, their customers, to understand, monitor, manage, and contain the risks they pose to the respective Clearing Agencies, and identifies some of the tools the Clearing Agencies provide to their participants to facilitate this understanding. The Clearing Agencies are proposing to amend Section 4.1 to make clarifying edits.

First, the proposed amendments would clarify that the tools and activities described in Section 4.1 support the Clearing Agencies' compliance with Rule 17Ad-22(e)(23) under the

Act.²⁰ Rule 17Ad-22(e)(23) requires, in part, that the Clearing Agencies establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for publicly disclosing relevant basic data on transaction volume and values, and a comprehensive public disclosure that describes their material rules, policies, and procedures regarding their legal, governance, risk management, and operating framework, accurate in all material respects at the time of publication.²¹ Certain matters described in Section 4.1 of the Framework, including the publication of disclosure frameworks and quantitative disclosures (described below), support the Clearing Agencies' compliance with the requirements of Rule 17Ad-22(e)(23).²² Therefore, the Clearing Agencies would update the introduction to Section 4.1, and make a conforming change to Section 1 of the Framework, to refer to Rule 17Ad-22(e)(23).²³

Second, the proposed amendments would correct a statement in Section 4.1 of the Framework regarding the disclosure frameworks posted to the DTCC website for each of the Clearing Agencies on a biennial basis, which provide a comprehensive description of how the businesses and operations of the Clearing Agencies reflect the Principles for financial market infrastructures, issued by the Committee on Payment and Settlement Systems ("CPSS") and the Technical Committee of the International Organization of Securities Commissions ("IOSCO").²⁴ These disclosure frameworks also address how the businesses and operations of the Clearing Agencies reflect the Standards. Therefore, the Clearing Agencies would correct this statement in Section 4.1 regarding the scope of the disclosure frameworks by also referring to the Standards.

Finally, the proposed amendments would correct a statement in Section 4.1 of the Framework regarding the quantitative disclosures that are posted to the DTCC website on a quarterly basis, which disclose certain quantitative data and other information as set out in the Public quantitative disclosure standards for central counterparties published by CPMI and IOSCO.²⁵ Currently, Section 4.1 states that these disclosures relate to the Clearing Agencies. However, these disclosures are only required for central counterparties and, as such, only relate to NSCC and FICC, and not DTC. The Clearing Agencies would correct this error by replacing "Clearing Agencies" with "NSCC and FICC, as central counterparties" in Section 4.1 of the Framework.

²⁰ 17 CFR 240.17Ad-22(e)(23).

²¹ Id.

²² Id.

²³ Id.

²⁴ CPSS and the Technical Committee of IOSCO, Principles for financial market infrastructures (April 16, 2012), available at <http://www.bis.org/cpmi/publ/d101a.pdf>. In 2014, CPSS became the Committee on Payments and Market Infrastructures ("CPMI").

²⁵ CPMI and the Board of IOSCO, Public quantitative disclosure standards for central counterparties (February 26, 2015), available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD475.pdf>.

8. Proposed Change to Enhance Description of Governance of Systemic Risk Management

The proposed change would enhance the description of the governance of systemic risk management in Section 4.2.1 by including a description of the Systemic Risk Council, the frequency of this Council's meetings, and stating that matters discussed at these meetings may be escalated to the Management Risk Committee or the Board Risk Committee when appropriate. The proposed changes would improve the descriptions in the Framework by providing additional details regarding the governance of systemic risk management.

9. Proposed Change to Enhance Description of Management of Risk Related to Other External Links

The proposed change would enhance the description of the management of risks related to external links in Section 4.2.2 by identifying a policy and a procedure that are maintained by the Clearing Agencies to govern this process. The proposed change would improve the disclosures in the Framework by providing a clear reference to these documents.

10. Proposed Change to Remove Unnecessary Phrase

The proposed change would remove an unnecessary phrase “, is set forth in” that is incorrectly at the end of a sentence in Section 1 of the Framework.

11. Proposed Change to Rephrase Sentences that Incorrectly Indicate Discretion in Taking Certain Actions

The proposed change would rephrase four sentences in the Framework that currently indicate the action described is discretionary. First, the proposed change would rephrase a statement in Section 4.2.1 to remove the indication that the Clearing Agencies have discretion to not manage risks related to participants and settlement banks. Second, the proposed change would rephrase a statement in Section 4.2.1 to remove the indication that the Clearing Agencies have discretion to not maintain policies, procedures or templates relating to the management of third-party risks. Third, the proposed change would rephrase a statement in Section 4.2.2 to remove the indication that the General Counsel's Office has discretion in reviewing certain key link arrangements. Finally, the proposed change would rephrase a statement in Section 5 to remove the indication that the Clearing Agencies have discretion to not maintain policies and procedures governing the development and maintenance of R&W Plans.

12. Proposed Change to Correct Error Regarding Reporting Line of DTCC Internal Audit Department

The Clearing Agencies are proposing a change to the Framework to correct an error in Section 3.1.3, which currently states Internal Audit has a direct reporting line to the Risk Committees of the Boards. This statement is incorrect, as Internal Audit has a direct reporting line to the Audit Committees of the Boards. The Clearing Agencies would correct this error by making a minor revision to Section 3.1.3 of the Framework. In addition, the Clearing Agencies are proposing to change references of “Audit Committee” to “Audit Committees” to reflect that each of the Boards has an audit committee.

(b) Statutory Basis

The Clearing Agencies believe that the proposed changes are consistent with Section 17A(b)(3)(F) of the Act²⁶ and Rules 17Ad-22(e)(22) and (e)(23) promulgated under the Act,²⁷ for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a registered clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.²⁸ The proposed changes would (1) add a description of how the Clearing Agencies address compliance with Rule 17Ad-22(e)(22), (2) update the descriptions of certain matters in the Risk Management Framework, and (3) clarify and correct other statements within the Framework, as described above. By addressing the Clearing Agencies' compliance with Rule 17Ad-22(e)(22), creating clearer, updated descriptions and correcting errors, the Clearing Agencies believe that the proposed changes would make the Risk Management Framework more effective in providing an overview of the important risk management activities of the Clearing Agencies, as described therein.

As described in the Initial Filing, the risk management functions described in the Risk Management Framework allow the Clearing Agencies to continue to promote the prompt and accurate clearance and settlement of securities transactions, and continue to assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible notwithstanding the default of a member of an affiliated family. The proposed changes to describe policies that address to the Clearing Agencies' communication standards and improve the clarity and accuracy of the descriptions of risk management functions within the Framework would assist the Clearing Agencies in carrying out these risk management functions. Therefore, the Clearing Agencies believe these proposed changes are consistent with the requirements of Section 17A(b)(3)(F) of the Act.²⁹

Rule 17Ad-22(e)(22) under the Act requires that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, and settlement.³⁰ The Framework would describe a policy maintained by the Clearing Agencies that (1) identifies the communication standards and data forms used by the Clearing Agencies for payment, clearing

²⁶ 15 U.S.C. 78q-1(b)(3)(F).

²⁷ 17 CFR 240.17Ad-22(e)(22) and (e)(23).

²⁸ 15 U.S.C. 78q-1(b)(3)(F).

²⁹ Id.

³⁰ 17 CFR 240.17Ad-22(e)(22).

and settlement that are regarded as accepted industry standards for transactions processed through the Clearing Agencies, and (2) provides that the Clearing Agencies would accommodate relevant internationally accepted communication procedures and standards when new industry standards are introduced. By describing the Clearing Agencies' use of accepted industry communication standards and their policy of supporting new industry standards when introduced, this policy, and a supporting communication standards document, both support the Clearing Agencies' compliance with Rule 17Ad-22(e)(22).³¹ Therefore, the Clearing Agencies believe that the proposed rule change to include this policy in the Risk Management Framework is consistent with Rule 17Ad-22(e)(22).³²

Rule 17Ad-22(e)(23) under the Act requires, in part, that the Clearing Agencies establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for publicly disclosing relevant basic data on transaction volume and values, and a comprehensive public disclosure that describes their material rules, policies, and procedures regarding their legal, governance, risk management, and operating framework, accurate in all material respects at the time of publication.³³ Section 4.1 of the Framework currently describes how the Clearing Agencies provide their respective participants with information and incentives to enable them, and, through them, their customers, to understand, monitor, manage and contain the risks they pose to the respective Clearing Agencies, and identifies some of the tools the Clearing Agencies provide to their participants to facilitate this understanding. The proposed rule change would revise Section 4.1 of the Framework to state that those tools and activities support the Clearing Agencies' compliance with Rule 17Ad-22(e)(23) under the Act.³⁴ By describing these actions, including the publication of disclosure frameworks and quantitative disclosures, the Clearing Agencies believe that the proposed change to the Risk Management Framework is consistent with Rule 17Ad-22(e)(23).³⁵

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

The Clearing Agencies do not believe that the proposed changes to the Framework described above would have any impact, or impose any burden, on competition. As described above, the proposed rule changes would improve the comprehensiveness of the Framework by including a description of the Clearing Agencies' compliance with Rule 17Ad-22(e)(22) under the Act and would also improve the clarity and accuracy of the descriptions of certain matters within the Framework. Therefore, the proposed changes are technical and non-material in nature, relating mostly to the operation of the Framework rather than the risk management

³¹ Id.

³² Id.

³³ 17 CFR 240.17Ad-22(e)(23).

³⁴ Id.

³⁵ Id.

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.

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.³⁶

(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 mostly 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.³⁷

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.³⁸ 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.³⁹ The Clearing Agencies believe that it would be appropriate for the proposed changes to become operative on a shorter timeframe in order to

³⁶ 15 U.S.C. 78s(b)(3)(A).

³⁷ 17 CFR 240.19b-4(f)(6).

³⁸ Id.

³⁹ 17 CFR 240.19b-4(f)(6)(iii).

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 Frameworks are internal facing documents, 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 Frameworks 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 Commission will institute proceedings to determine whether the proposed rule change 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 – Clearing Agency Communication Standards Policy, Communications Standard, DTCC Corporate Document Management Framework, DTCC Third Party Risk Management Policy, DTCC Third Party Risk Management Procedures, General Counsel's Office Link Arrangement and Schedule A Relationship Review Policy and Procedures, Global

Operations & Client Services – Balanced Business Scorecard Development Procedures & Job Aids, Office of Recovery and Resolution Planning Policy, Office of Recovery and Resolution Planning Procedures, Policy on Governance of Internal Committees and Councils, Systemic Risk Office Clearing Agency Links – Risk Review Procedures, Systemic Risk Office Clearing Agency Links Inventory Job Aid. **Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 3 being requested pursuant to 17 CFR 240.24b-2.**

Exhibit 4 – Not applicable.

Exhibit 5 – 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-NSCC-2020-012)

[DATE]

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on July __, 2020, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. NSCC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ 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 Risk Management Framework (“Risk Management Framework” or “Framework”) of NSCC and its affiliates, The Depository Trust Company (“DTC”) and Fixed Income Clearing Corporation (“FICC,” and together with NSCC and DTC, the “Clearing Agencies”).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

Specifically, the proposed rule change would (1) include a description of a set of policies that addresses the Clearing Agencies' compliance with Rule 17Ad-22(e)(22) of the Standards for Covered Clearing Agencies ("Standards"), under the Act,⁵ (2) update the Risk Management Framework to reflect recent changes to certain processes and other matters described in the Framework, and changes to the status of documents identified in the Framework; and (3) clarify the descriptions of certain matters within the Framework to improve comprehensiveness and correct errors, 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 Risk Management Framework⁶ to provide an outline for how each of the Clearing Agencies (i) maintains a well-founded, clear, transparent and enforceable legal basis for each aspect of its activities;

⁵ 17 CFR 240.17Ad-22(e)(22).

⁶ See Securities Exchange Act Release No. 81635 (September 15, 2017), 82 FR 44224 (September 21, 2017) (SR-DTC-2017-013; SR-NSCC-2017-012; SR-FICC-2017-016) ("Initial Filing").

(ii) comprehensively manages legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by it; (iii) identifies, monitors, and manages risks related to links it establishes with one or more clearing agencies, financial market utilities, or trading markets; and (iv) meets the requirements of its participants and the markets it serves efficiently and effectively. In this way, the Risk Management Framework currently supports the Clearing Agencies' compliance with Rules 17Ad-22(e)(1), (3), (20) and (21) of the Standards,⁷ as described in the Initial Filing. In addition to setting forth the manner in which each of the Clearing Agencies addresses these requirements, the Risk Management Framework also contains a section titled "Framework Ownership and Change Management" that, among other matters, describes the Framework ownership and the required governance process for review and approval of changes to the Framework. In connection with the annual review and approval of the Framework by the Board of Directors of each of NSCC, DTC and FICC (each a "Board" and collectively, the "Boards"), the Clearing Agencies are proposing to make certain revisions to the Framework.

The proposed changes would add a new Section 4.4 to describe a policy and a communication standard document that support the Clearing Agencies' compliance with Rule 17Ad-22(e)(22), which requires the Clearing Agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, and settlement.⁸

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

⁸ 17 CFR 240.17Ad-22(e)(22).

The proposed changes would also update the Risk Management Framework to reflect (1) a change to the name of the Vendor Risk Management group to the Third Party Risk Management group; (2) a change to the format of the Balanced Business Scorecard, which is an internal performance management tool used to measure the effectiveness of various aspects of the operations of The Depository Trust & Clearing Corporation (“DTCC”) and its subsidiaries, including the Clearing Agencies; and (3) the filing of certain documents identified in the Framework, pursuant to Section 19(b)(1) of the Act,⁹ and the rules thereunder, and Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, entitled the Payment, Clearing, and Settlement Supervision Act of 2010,¹⁰ and the rules thereunder (collectively, “Filing Requirements”), as described in greater detail below.

The proposed changes would also clarify and enhance the descriptions in the Risk Management Framework to (1) identify the requirement of Rule 17Ad-22(e)(3)(i) under the Act that the Framework be reviewed and approved by the Boards on an annual basis;¹¹ (2) identify the role of the DTCC Legal Department in supporting the management of legal risks that arise in or are borne by the Clearing Agencies; (3) enhance the description of the DTCC Risk Department as “Second Line of Defense,” (4) enhance the description of the DTCC Internal Audit Department as “Third Line of Defense;” (5) enhance the description of a policy relating to the establishment and governance of internal management committees; (6) enhance the description of the

⁹ 15 U.S.C. 78s(b)(1).

¹⁰ 12 U.S.C. 5465(e)(1).

¹¹ 17 CFR 240.17Ad-22(e)(3)(i).

processes designed to maintain comprehensive policies, procedures and other documents; (7) clarify that certain activities described in the Framework that relate to the public disclosure of material information, including market data, address the Clearing Agencies' compliance with Rule 17Ad-22(e)(23) under the Act;¹² (8) enhance the description of the management of systemic risks by describing the role of the Systemic Risk Council; (9) correct a sentence by removing an unnecessary phrase; and (10) enhance the descriptions of certain actions by removing the indication that the Clearing Agencies have discretion in engaging in those actions.

Finally, the proposed changes would correct an error in the Risk Management Framework to identify the Audit Committees of the Boards as the committees to which the DTCC Internal Audit Department has a direct reporting line. Each of these proposed changes is described below.

i. Proposed Amendments to Describe Policies that Address Compliance with Rule 17Ad-22(e)(22)

First, the proposed changes would add a new Section 4.4 to the Framework to describe a policy maintained by the Clearing Agencies to use and accommodate relevant internationally accepted communication procedures and standards to facilitate efficient payment, clearing, and settlement, to support the Clearing Agencies' compliance with Rule 17Ad-22(e)(22).¹³

The policy describes how the communication standards and data formats that are currently used by the Clearing Agencies for payment, clearing, and settlement are

¹² 17 CFR 240.17Ad-22(e)(23).

¹³ 17 CFR 240.17Ad-22(e)(22).

regarded as accepted industry standards for transactions processed through the Clearing Agencies. The policy also provides that the Clearing Agencies would accommodate new industry standards that are considered internationally accepted communication procedures and standards. The new Section 4.4 would also state that the Clearing Agencies maintain a communication standard document that supports this policy.

The Clearing Agencies are proposing to amend the Risk Management Framework to adopt a new Section 4.4 that would describe these documents, which support the Clearing Agencies' compliance with Rule 17Ad-22(e)(22).¹⁴

ii. Proposed Amendments to Update the Framework

Second, the proposed changes would update the Risk Management Framework to reflect recent developments with respect to certain processes and other matters described in the Framework, and changes to the status of documents described in the Framework, as described below.

1. Proposed Change to Identify Third Party Risk Management

Section 4 of the Risk Management Framework outlines ways in which each of the Clearing Agencies manages certain risks that arise in or are borne by it. Specifically, Section 4.2 describes the management of risks related to material interdependencies and external links that may be established by the Clearing Agencies. The Clearing Agencies represent that management of risks presented by vendors and other material service providers is guided by a function within the Operational Risk Management group within the Group Chief Risk Office . This function was previously referred to as "Vendor Risk Management." While the role and responsibilities of this risk management function have

¹⁴ Id.

not changed, its name has recently been changed to “Third Party Risk Management” to clarify that the function covers any material third party service provider that provides a service to a DTCC entity.

The Clearing Agencies are proposing to amend Section 4.2.1 of the Risk Management Framework to reflect this name change and to clarify that the function covers any material third party service provider that provides a service to a DTCC entity by adding “Third Party” as a new defined term. The Clearing Agencies are also proposing to identify the existing policy and procedure that is maintained to manage these risks.

2. Proposed Change to Description of Balanced Business Scorecard

Section 4.3 of the Risk Management Framework addresses certain processes implemented by the Clearing Agencies in order to be efficient and effective in meeting the requirements of their respective participants and the markets they serve.¹⁵ One of the methods the Clearing Agencies use to meet these requirements is the periodic creation of a Balanced Business Scorecard, which provides insight into the effectiveness of the Clearing Agencies’ operations, information technology service levels, financial performance, human capital, and their respective participants’ experience.

Previously, a Balanced Business Scorecard (referred to as the “Core Balance Business Scorecard”) was created for the Clearing Agencies, and a separate Balanced Business Scorecard was created for the other subsidiaries of DTCC. Recently, these two tools merged, and only one Balanced Business Scorecard (now referred to as the “DTCC

¹⁵ Such processes support the Clearing Agencies’ compliance with the requirements of Rule 17Ad-22(e)(21) under the Act. 17 CFR 240.17Ad-22(e)(21).

Balanced Business Scorecard”) is created, which addresses DTCC and each of its subsidiaries, including each of the Clearing Agencies. While the new, enterprise-wide Balanced Business Scorecard reports its conclusions on a less granular, enterprise-wide basis, it is created using the same set of metrics as the legacy Clearing Agencies version. Therefore, the Balanced Business Scorecard continues to support the Clearing Agencies’ compliance with the requirements of Rule 17Ad-22(e)(21) under the Act.¹⁶ The Balanced Business Scorecard now reports those metrics in the context of the DTCC enterprise, at a less granular level.

The Clearing Agencies are proposing to amend Section 4.3 of the Risk Management Framework to reflect the change in format of the Balanced Business Scorecard described above.

3. Proposed Change to Description of Certain Documents to Reflect Filing Pursuant to Filing Requirements

Following the adoption of the Risk Management Framework, certain documents that are identified in the Framework were filed pursuant to the Filing Requirements. The Clearing Agencies are proposing to revise the descriptions of these documents to reflect this change.

Section 3.3 of the Framework describes certain frameworks that are maintained by the Clearing Agencies and provide an outline for certain policies and procedures that address, in whole or in part, the management of operational, liquidity, credit, market, collateral, and other risks. This section identified five such frameworks, the Clearing Agency Operational Risk Management Framework, the Clearing Agency Liquidity Risk

¹⁶ Id.

Management Framework, the Clearing Agency Securities Valuation Framework, the Clearing Agency Stress Testing Framework, and the Clearing Agency Model Risk Management Framework. Each of these frameworks has been filed pursuant to the applicable Filing Requirements and adopted by the Clearing Agencies.¹⁷ The Clearing Agencies are proposing to update Section 3.3 to reflect this change.

Section 5 of the Risk Management Framework describes the plans that are maintained by each of the Clearing Agencies for their recovery or orderly wind-down (“R&W Plans”). The R&W Plans were still in development when the Framework was adopted, but have since been finalized, approved by the Boards, filed pursuant to the Filing Requirements, and adopted by the Clearing Agencies.¹⁸ Therefore, the Clearing Agencies are proposing to update Section 5 to reflect these developments, and to describe the ongoing governance of the R&W Plans.

¹⁷ See Securities Exchange Act Release Nos. 81745 (September 28, 2017), 82 FR 46332 (October 4, 2017) (SR-DTC-2017-014; SR-NSCC-2017-013; SR-FICC-2017-017) (Operational Risk Management Framework); 82377 (December 21, 2017), 82 FR 61617 (December 28, 2017) (SR-DTC-2017-004; SR-NSCC-2017-005; SR-FICC-2017-008) (Liquidity Risk Management Framework); 82006 (November 2, 2017), 82 FR 51892 (November 8, 2017) (SR-DTC-2017-016; SR-NSCC-2017-016; SR-FICC-2017-020) (Securities Valuation Framework); 82368 (December 19, 2017), 82 FR 61082 (December 26, 2017) (SR-DTC-2017-005; SR-FICC-2017-009; SR-NSCC-2017-006) (Stress Testing Framework); and 81485 (August 25, 2017), 82 FR 41433 (August 31, 2017) (SR-DTC-2017-008; SR-FICC-2017-014; SR-NSCC-2017-008) (Model Risk Management Framework).

¹⁸ See Securities Exchange Act Release Nos. 83972 (August 28, 2018), 83 FR 44964 (September 4, 2018) (SR-DTC-2017-021); 83953 (August 27, 2018), 83 FR 44381 (August 30, 2018) (SR-DTC-2017-803); 83974 (August 28, 2018), 83 FR 44988 (September 4, 2018) (SR-NSCC-2017-017); 83955 (August 27, 2018), 83 FR 44340 (August 30, 2018) (SR-NSCC-2017-805); 83973 (August 28, 2018), 83 FR 44942 (September 4, 2018) (SR-FICC-2017-021); 83954 (August 27, 2018), 83 FR 44361 (August 30, 2018) (SR-FICC-2017-805).

iii. Proposed Amendments to Clarify, Enhance, and Correct Descriptions in the Framework

Finally, the proposed changes would enhance the descriptions of certain matters within the Risk Management Framework to improve its clarity and comprehensiveness and correct an error, as described below.

1. Proposed Change to Correct Annual Approval of Framework by Boards

Section 2 of the Risk Management Framework addresses the Framework's ownership and change management. This section currently states that the Framework should be reviewed by the document owner no less frequently than annually but does not specifically identify the requirement that the Framework also be approved by the Boards on an annual basis. The Clearing Agencies are proposing to correct the Framework to include the requirement that the Framework be approved by the Boards, or a duly authorized committee of the Boards, annually.

Rule 17Ad-22(e)(3) under the Act requires that the Clearing Agencies 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.¹⁹ 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.²⁰ As stated above, the Framework provides an outline for how each of the Clearing Agencies comprehensively manages legal, credit, liquidity, operational, general business,

¹⁹ 17 CFR 240.17Ad-22(e)(3).

²⁰ 17 CFR 240.17Ad-22(e)(3)(i).

investment, custody, and other risks that arise in or are borne by it, as required by Rule 17Ad-22(e)(3) under the Act.²¹ Therefore, the Risk Management Framework is reviewed and approved by the Boards annually, as required by Rule 17Ad-22(e)(3)(i) under the Act.²²

The Clearing Agencies are proposing to amend Section 2 of the Framework to state that the Framework shall be approved by the Boards, or a duly authorized committee of the Boards, annually. The proposed change would correct the Framework to include this requirement, which is aligned with the applicable requirements of Rule 17Ad-22(e)(3)(i) under the Act.²³

2. Proposed Change to Identify DTCC Legal Department's Role in Management of Clearing Agencies' Legal Risks

Section 3.1 of the Risk Management Framework describes the “three lines of defense” approach adopted by each of the Clearing Agencies for identifying, assessing, measuring, monitoring, mitigating, and reporting the risks that arise in or are borne by it. Currently, this section outlines the role of each line of defense, and specifically describes the roles of the DTCC Risk Department (“Risk Department”) and DTCC Internal Audit Department (“Internal Audit”) within this risk management approach. The DTCC Legal Department (“Legal Department”) also plays a particular role in the three lines of defense approach by supporting each line of defense in the management of legal risks.

²¹ 17 CFR 240.17Ad-22(e)(3).

²² 17 CFR 240.17Ad-22(e)(3)(i).

²³ Id.

While the Legal Department is currently identified as part of the control functions that form the second line of defense in Section 3.1.2, its particular role is not separately described. Therefore, the Clearing Agencies are proposing to update the introduction of Section 3.1 to state that the Legal Department supports each line of defense in the management of legal risks. This proposed change would more clearly describe the particular role of the Legal Department in this risk management approach.

3. Proposed Change to Enhance Description of DTCC's Risk Department as "Second Line of Defense" in Risk Management

As stated above, Section 3.1 of the Risk Management Framework describes the "three lines of defense" approach to risk management adopted by the Clearing Agencies. Section 3.1.2 describes the particular role of the Risk Department as the second line of defense within this risk management approach. The Clearing Agencies are proposing to amend this Section 3.1.2 to enhance the description of the Risk Department's role, including by providing details relating to the role of the Operational Risk Management group within the Risk Department. The proposed amendments would describe how the Operational Risk Management group addresses and escalates incidents based on a risk rating of those incidents. In addition, the proposed change would clarify the description relating to the procedures, processes, tools, mechanisms, analyses, and testing controls employed by the Risk Department and indicate that such procedures, etc. are subject to the parameters set forth in Section 3.3, which discusses the Filing Requirements and document standards relating to policies, procedures, frameworks and certain related documents. In addition, the Clearing Agencies are proposing to add a defined term in Section 3.1 to reflect that the Risk Department refers to the Risk Department of DTCC.

The proposed changes would more clearly describe the particular role of the Risk Department in this risk management approach.

4. Proposed Change to Enhance Description of DTCC's Internal Audit Department as "Third Line of Defense" in Risk Management

Section 3.1.3 of the Risk Management Framework describes the particular role of Internal Audit as the third line of defense within the risk management approach. The Clearing Agencies are proposing to amend this Section 3.1.3 to enhance the description of Internal Audit's role, including by providing a clearer description of the responsibilities of Internal Audit, making grammatical changes to certain descriptions to improve readability, and removing references to Internal Audit as providing an advisory role to the Clearing Agencies. By removing references to advisory services, the proposed changes would conform the Risk Management Framework to the charter of the Audit Committees of the Boards, where similar changes have been made to reinforce the group's role as the third line of defense in risk management and its independence and objectivity in the performance of assurance services. In addition, the Clearing Agencies are proposing to add a defined term in Section 3.1 to clarify that Internal Audit refers to the Internal Audit Department of DTCC.

5. Proposed Change to Enhance Description of Policy Regarding Management Committees and Oversight

Section 3.2 of the Risk Management Framework states that a set of senior management committees provides oversight of various aspects of the Clearing Agencies' activities, including risk management, and describes the policy that sets forth the requirements for establishing and governing these committees. The Clearing Agencies are proposing to amend Section 3.2 by including a reference to the described document

and providing a clearer and more complete description of the contents of this policy and the ongoing governance requirements of senior management committees. The proposed changes would not make any substantive changes to this description.

6. Proposed Change to Enhance Description of Management of Policies, Procedures, and Other Documents

Section 3.3.1 of the Risk Management Framework states that the Clearing Agencies maintain comprehensive policies and procedures designed to identify, measure, monitor and manage the risks that arise in or are borne by the Clearing Agencies, and describes a set of standards the Clearing Agencies have established for creating and managing these documents. The Clearing Agencies are proposing to amend the description of these standards. The proposed amendments to Section 3.3.1 would reword the descriptions of these standards by, for example, more clearly describing the governance of these documents, how these standards provide guidance on reviews of these documents by document owners, and the role of the document owners in adhering to these standards. The proposed changes would not make any substantive changes to this description.

7. Proposed Change to Clarify Regulatory Basis of Certain Public Disclosures

Section 4.1 of the Risk Management Framework states that the Clearing Agencies provide their respective participants with information and incentives to enable them, and, through them, their customers, to understand, monitor, manage, and contain the risks they pose to the respective Clearing Agencies, and identifies some of the tools the Clearing Agencies provide to their participants to facilitate this understanding. The Clearing Agencies are proposing to amend Section 4.1 to make clarifying edits.

First, the proposed amendments would clarify that the tools and activities described in Section 4.1 support the Clearing Agencies' compliance with Rule 17Ad-22(e)(23) under the Act.²⁴ Rule 17Ad-22(e)(23) requires, in part, that the Clearing Agencies establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for publicly disclosing relevant basic data on transaction volume and values, and a comprehensive public disclosure that describes their material rules, policies, and procedures regarding their legal, governance, risk management, and operating framework, accurate in all material respects at the time of publication.²⁵

Certain matters described in Section 4.1 of the Framework, including the publication of disclosure frameworks and quantitative disclosures (described below), support the Clearing Agencies' compliance with the requirements of Rule 17Ad-22(e)(23).²⁶

Therefore, the Clearing Agencies would update the introduction to Section 4.1, and make a conforming change to Section 1 of the Framework, to refer to Rule 17Ad-22(e)(23).²⁷

Second, the proposed amendments would correct a statement in Section 4.1 of the Framework regarding the disclosure frameworks posted to the DTCC website for each of the Clearing Agencies on a biennial basis, which provide a comprehensive description of how the businesses and operations of the Clearing Agencies reflect the Principles for financial market infrastructures, issued by the Committee on Payment and Settlement Systems ("CPSS") and the Technical Committee of the International Organization of

²⁴ 17 CFR 240.17Ad-22(e)(23).

²⁵ Id.

²⁶ Id.

²⁷ Id.

Securities Commissions (“IOSCO”).²⁸ These disclosure frameworks also address how the businesses and operations of the Clearing Agencies reflect the Standards. Therefore, the Clearing Agencies would correct this statement in Section 4.1 regarding the scope of the disclosure frameworks by also referring to the Standards.

Finally, the proposed amendments would correct a statement in Section 4.1 of the Framework regarding the quantitative disclosures that are posted to the DTCC website on a quarterly basis, which disclose certain quantitative data and other information as set out in the Public quantitative disclosure standards for central counterparties published by CPMI and IOSCO.²⁹ Currently, Section 4.1 states that these disclosures relate to the Clearing Agencies. However, these disclosures are only required for central counterparties and, as such, only relate to NSCC and FICC, and not DTC. The Clearing Agencies would correct this error by replacing “Clearing Agencies” with “NSCC and FICC, as central counterparties” in Section 4.1 of the Framework.

8. Proposed Change to Enhance Description of Governance of Systemic Risk Management

The proposed change would enhance the description of the governance of systemic risk management in Section 4.2.1 by including a description of the Systemic Risk Council, the frequency of this Council’s meetings, and stating that matters discussed at these meetings may be escalated to the Management Risk Committee or the Board

²⁸ CPSS and the Technical Committee of IOSCO, Principles for financial market infrastructures (April 16, 2012), available at <http://www.bis.org/cpmi/publ/d101a.pdf>. In 2014, CPSS became the Committee on Payments and Market Infrastructures (“CPMI”).

²⁹ CPMI and the Board of IOSCO, Public quantitative disclosure standards for central counterparties (February 26, 2015), available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD475.pdf>.

Risk Committee when appropriate. The proposed changes would improve the descriptions in the Framework by providing additional details regarding the governance of systemic risk management.

9. Proposed Change to Enhance Description of Management of Risk Related to Other External Links

The proposed change would enhance the description of the management of risks related to external links in Section 4.2.2 by identifying a policy and a procedure that are maintained by the Clearing Agencies to govern this process. The proposed change would improve the disclosures in the Framework by providing a clear reference to these documents.

10. Proposed Change to Remove Unnecessary Phrase

The proposed change would remove an unnecessary phrase “, is set forth in” that is incorrectly at the end of a sentence in Section 1 of the Framework.

11. Proposed Change to Rephrase Sentences that Incorrectly Indicate Discretion in Taking Certain Actions

The proposed change would rephrase four sentences in the Framework that currently indicate the action described is discretionary. First, the proposed change would rephrase a statement in Section 4.2.1 to remove the indication that the Clearing Agencies have discretion to not manage risks related to participants and settlement banks. Second, the proposed change would rephrase a statement in Section 4.2.1 to remove the indication that the Clearing Agencies have discretion to not maintain policies, procedures or templates relating to the management of third-party risks. Third, the proposed change would rephrase a statement in Section 4.2.2 to remove the indication that the General Counsel’s Office has discretion in reviewing certain key link arrangements. Finally, the proposed change would rephrase a statement in Section 5 to remove the indication that

the Clearing Agencies have discretion to not maintain policies and procedures governing the development and maintenance of R&W Plans.

12. Proposed Change to Correct Error Regarding Reporting Line of DTCC Internal Audit Department

The Clearing Agencies are proposing a change to the Framework to correct an error in Section 3.1.3, which currently states Internal Audit has a direct reporting line to the Risk Committees of the Boards. This statement is incorrect, as Internal Audit has a direct reporting line to the Audit Committees of the Boards. The Clearing Agencies would correct this error by making a minor revision to Section 3.1.3 of the Framework. In addition, the Clearing Agencies are proposing to change references of “Audit Committee” to “Audit Committees” to reflect that each of the Boards has an audit committee.

2. Statutory Basis

The Clearing Agencies believe that the proposed changes are consistent with Section 17A(b)(3)(F) of the Act³⁰ and Rules 17Ad-22(e)(22) and (e)(23) promulgated under the Act,³¹ for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a registered clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.³² The

³⁰ 15 U.S.C. 78q-1(b)(3)(F).

³¹ 17 CFR 240.17Ad-22(e)(22) and (e)(23).

³² 15 U.S.C. 78q-1(b)(3)(F).

proposed changes would (1) add a description of how the Clearing Agencies address compliance with Rule 17Ad-22(e)(22), (2) update the descriptions of certain matters in the Risk Management Framework, and (3) clarify and correct other statements within the Framework, as described above. By addressing the Clearing Agencies' compliance with Rule 17Ad-22(e)(22), creating clearer, updated descriptions and correcting errors, the Clearing Agencies believe that the proposed changes would make the Risk Management Framework more effective in providing an overview of the important risk management activities of the Clearing Agencies, as described therein.

As described in the Initial Filing, the risk management functions described in the Risk Management Framework allow the Clearing Agencies to continue to promote the prompt and accurate clearance and settlement of securities transactions, and continue to assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible notwithstanding the default of a member of an affiliated family. The proposed changes to describe policies that address to the Clearing Agencies' communication standards and improve the clarity and accuracy of the descriptions of risk management functions within the Framework would assist the Clearing Agencies in carrying out these risk management functions. Therefore, the Clearing Agencies believe these proposed changes are consistent with the requirements of Section 17A(b)(3)(F) of the Act.³³

Rule 17Ad-22(e)(22) under the Act requires that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to use, or at a minimum accommodate, relevant internationally accepted

³³

Id.

communication procedures and standards in order to facilitate efficient payment, clearing, and settlement.³⁴ The Framework would describe a policy maintained by the Clearing Agencies that (1) identifies the communication standards and data forms used by the Clearing Agencies for payment, clearing and settlement that are regarded as accepted industry standards for transactions processed through the Clearing Agencies, and (2) provides that the Clearing Agencies would accommodate relevant internationally accepted communication procedures and standards when new industry standards are introduced. By describing the Clearing Agencies' use of accepted industry communication standards and their policy of supporting new industry standards when introduced, this policy, and a supporting communication standards document, both support the Clearing Agencies' compliance with Rule 17Ad-22(e)(22).³⁵ Therefore, the Clearing Agencies believe that the proposed rule change to include this policy in the Risk Management Framework is consistent with Rule 17Ad-22(e)(22).³⁶

Rule 17Ad-22(e)(23) under the Act requires, in part, that the Clearing Agencies establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for publicly disclosing relevant basic data on transaction volume and values, and a comprehensive public disclosure that describes their material rules, policies, and procedures regarding their legal, governance, risk management, and operating framework, accurate in all material respects at the time of publication.³⁷ Section 4.1 of

³⁴ 17 CFR 240.17Ad-22(e)(22).

³⁵ Id.

³⁶ Id.

³⁷ 17 CFR 240.17Ad-22(e)(23).

the Framework currently describes how the Clearing Agencies provide their respective participants with information and incentives to enable them, and, through them, their customers, to understand, monitor, manage and contain the risks they pose to the respective Clearing Agencies, and identifies some of the tools the Clearing Agencies provide to their participants to facilitate this understanding. The proposed rule change would revise Section 4.1 of the Framework to state that those tools and activities support the Clearing Agencies' compliance with Rule 17Ad-22(e)(23) under the Act.³⁸ By describing these actions, including the publication of disclosure frameworks and quantitative disclosures, the Clearing Agencies believe that the proposed change to the Risk Management Framework is consistent with Rule 17Ad-22(e)(23).³⁹

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

The Clearing Agencies do not believe that the proposed changes to the Framework described above would have any impact, or impose any burden, on competition. As described above, the proposed rule changes would improve the comprehensiveness of the Framework by including a description of the Clearing Agencies' compliance with Rule 17Ad-22(e)(22) under the Act and would also improve the clarity and accuracy of the descriptions of certain matters within the Framework. Therefore, the proposed changes are technical and non-material in nature, relating mostly to the operation of the Framework rather than the risk management functions described therein. As such, the Clearing Agencies do not believe that the proposed rule changes would have any impact on competition.

³⁸ Id.

³⁹ 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

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
- (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 Act⁴⁰ and Rule 19b-4(f)(6) thereunder.⁴¹

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:

⁴⁰ 15 U.S.C. 78s(b)(3)(A).

⁴¹ 17 CFR 240.19b-4(f)(6).

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NSCC-2020-012 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-NSCC-2020-012. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of NSCC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. 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-NSCC-2020-012 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴²

Secretary

⁴² 17 CFR 200.30-3(a)(12).

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EXHIBIT 5

Bold and underlined text indicates proposed added language.

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

Clearing Agency Risk Management Framework

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