

Required fields are shown with yellow backgrounds and asterisks.

Filing by The Depository Trust Company
 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"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input checked="" type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description

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

Amend the Clearing Agency Model 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 * John Last Name * Petrofsky
 Title * Director and Assistant General Counsel
 E-mail * JPetrofsky@dtcc.com
 Telephone * (813) 470-2115 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 07/07/2021 Managing Director & Deputy General Counsel
 By Brandon Becker bbecker@dtcc.com
 (Name *)

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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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

Exhibit 1 - Notice of Proposed Rule Change *

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

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

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

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

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Exhibit Sent As Paper Document

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

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

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

Partial Amendment

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

1. Text of the Proposed Rule Change

(a) The proposed rule change of The Depository Trust Company (“DTC”) clarifies the scope of the Clearing Agency Model Risk Management Framework (“Framework”) of DTC and its affiliates National Securities Clearing Corporation (“NSCC”) and Fixed Income Clearing Corporation (“FICC,” and together with NSCC, the “CCPs,” and the CCPs together with DTC, the “Clearing Agencies”).¹ The Framework has been adopted by the Clearing Agencies to support their compliance with Rule 17Ad-22(e) (the “Covered Clearing Agency Standards”).² The proposed rule change³ would amend the Framework to clarify that the Framework applies solely to models⁴ utilized by the Clearing Agencies that are subject to the model risk management requirements set forth in Rule 17Ad-22(e)(4), (e)(6), and (e)(7) under the Securities Exchange Act of 1934, as amended (the “Act”).⁵ The proposed rule change also makes other technical and clarifying changes to the text, as more fully described below.

(b) Not applicable.

(c) Not applicable.

¹ The Framework sets forth the model risk management practices that the Clearing Agencies follow to identify, measure, monitor, and manage the risks associated with the design, development, implementation, use, and validation of quantitative models. The Framework is filed as a rule of the Clearing Agencies. See Securities Exchange Act Release No. 81485 (August 25, 2017), 82 FR 41433 (August 31, 2017) (File Nos. SR-DTC-2017-008; SR-FICC-2017-014; SR-NSCC-2017-008) (“2017 Notice”) and Securities Exchange Act Release No. 88911 (May 20, 2020), 85 FR 31828 (May 27, 2020) (File Nos. SR-DTC-2020-008; SR-FICC-2020-004; SR-NSCC-2020-008) (“2020 Notice”) (collectively, the MRMF Filings”).

² 17 CFR 240.17Ad-22(e). Each of DTC, NSCC and FICC is a “covered clearing agency” as defined in Rule 17Ad-22(a)(5) and must comply with Rule 17Ad-22(e).

³ Amending the Framework does not require any changes to the Rules, By-Laws and Organization Certificate of DTC, the Rulebook of the Government Securities Division of FICC, the Clearing Rules of the Mortgage-Backed Securities Division of FICC, or the Rules & Procedures of NSCC, because the Framework is a standalone document. See MRMF Filings, supra note 1.

⁴ See infra note 12 for the definition of “model” as adopted by the Clearing Agencies pursuant to the Framework.

⁵ 17 CFR 240.17Ad-22(e)(4), (e)(6) and (e)(7). References to Rule 17Ad-22(e)(6) and compliance therewith apply to the CCPs only and do not apply to DTC.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Deputy General Counsel of DTC on July 7, 2021.

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

(a) Purpose

The proposed rule change clarifies the scope of the Framework to make clear that it applies solely to models that are subject to Rule 17Ad-22(e)(4), (e)(6), and (e)(7).⁶ The proposed rule change also makes other technical and clarifying changes to the text.

Background

The Framework is maintained by the Clearing Agencies to support their compliance with the requirements of the Covered Clearing Agency Standards relating to model risk management. The Covered Clearing Agency Standards require that the Clearing Agencies take a variety of steps to manage the models that they employ in identifying, measuring, monitoring, and managing their respective credit exposures and liquidity risks, including that the Clearing Agencies conduct daily backtesting of model performance, periodic sensitivity analyses of models, and annual validation of models.⁷

The Framework outlines the applicable regulatory requirements described above, describes the risks that the Clearing Agencies' model risk management program are designed to mitigate, and sets forth specific model risk management practices and requirements adopted by the Clearing Agencies in order to ensure compliance with the Covered Clearing Agency Standards. These practices and requirements include, among other things, the maintenance of a model inventory, a process for rating model materiality and complexity, processes for performing model validations and resolving findings identified during model validation, and processes for model performance monitoring, including backtesting and sensitivity analyses. The Framework also describes applicable internal ownership and governance requirements.⁸

The Depository Trust & Clearing Corporation ("DTCC"), the parent company of the Clearing Agencies, has established a robust model risk management program, which applies to models employed across multiple business lines and corporate functions.⁹ DTCC may

⁶ Id.

⁷ Id.

⁸ See MRMF Filings, supra note 1, for additional information on the contents of the Framework.

⁹ DTCC operates on a shared services model with respect to the Clearing Agencies. Most corporate functions are established and managed on an enterprise-wide basis pursuant to

implement changes in its model risk management program from time to time, some of which changes may impact only lower-risk, lower-materiality models that are not subject to the specific model risk management requirements of the Covered Clearing Agency Standards. The Clearing Agencies previously adopted changes to the Framework in connection with proposed enhancements to their model risk management program, which rule changes also deleted the defined term “Clearing Agency Model” on grounds that the Framework related solely to models of the Clearing Agencies, and it was unnecessary to use the modifier “Clearing Agency”.¹⁰ In view of continued expansion of DTCC’s model risk management program, however, the Clearing Agencies desire to avoid any doubt as to the applicability of the Framework to specific models, and therefore propose to adopt further clarifying changes to the text of the Framework.

Proposed Rule Change

Section 1 (Executive Summary) of the Framework recites the regulatory requirements applicable to model risk management for credit risk models, liquidity risk models, and margin models that are set forth in the Covered Clearing Agency Standards. The proposed rule change clarifies the Framework’s scope by (i) amending Section 1 of the Framework to add a sentence that states that the Framework supports the Clearing Agencies in complying with their rule filing requirements under Rule 19b-4¹¹ because the Framework itself is a rule that governs the Clearing Agencies’ management of their credit risk, margin, and liquidity risk management models and (ii) adding a footnote that states that only those models that satisfy the definition of “model” set forth in Section 3.1 of the Framework, and that support the Clearing Agencies’ compliance with the Standards, are models subject to the Framework and, in contrast, models of the Clearing Agencies that would satisfy the definition of “model” as set forth under Section 3.1 of the Framework, but do not support the Clearing Agencies’ compliance with the Standards, are not subject to the Framework.¹² In this regard, the proposed rule change would also amend certain

intercompany agreements under which it is generally DTCC that provides a relevant service to a Clearing Agency.

¹⁰ See 2020 Notice, supra note 1.

¹¹ 17 CFR 240.19b-4.

¹² Pursuant to Section 3.1 of the Framework, the Clearing Agencies have adopted the following definition of “model”: “[M]odel” refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. A “model” consists of three components: an information input component, which delivers assumptions and data to the model; a processing component, which transforms inputs into estimates; and a reporting component, which translates the estimates into useful business information. The definition of ‘model’ also covers quantitative approaches whose inputs are partially or wholly qualitative or based on expert judgment, provided that the output is quantitative in nature. See 2017 Notice, supra note 1. See also Supervisory Guidance on Model Risk Management, SR Letter 11-7 Attachment, dated April 4, 2011, issued by the Board of Governors of the Federal Reserve System and the Office of the Comptroller

references to models in subsequent sections to refer to models “subject to this Framework”. Specifically, the text “subject to this Framework” would modify references to models in (i) Section 3.1 with respect to (a) models to be added to the Clearing Agencies’ model inventory and (b) models subject to validation as set forth in Section 2,¹³ (ii) Section 3.2 (Model Materiality and Complexity) with respect to the assignment of complexity ratings to models,¹⁴ (iii) Section 3.3 (Full Model Validation) with respect to a requirement relating to the validation of new models,¹⁵ (iv) Section 3.4 (Periodic Model Validation) with respect to periodic validation of models,¹⁶ (v) Section 3.5 (Model Change Management) with respect to models that require changes in either structure or technique, (vi) Section 3.7 (Resolution of Model Validation Findings) with respect to internal tracking and reporting relating to model validations¹⁷ and

of the Currency, available at
<https://www.federalreserve.gov/supervisionreg/srletters/sr1107a1.pdf>, page 3.

¹³ Also in this regard, the applicable sentence that this reference would be added to would also replace the words “All models (including, without limitation, all credit risk models margin models, and liquidity risk models)” with “All models.” The described reference to “subject to this Framework” would be added after the newly added text “All models.”

¹⁴ In this instance, the new text “subject to this Framework” would be preceded with the added text “that is” so that the reference to “model” in this context reads “... model that is subject to this Framework”

¹⁵ Similar to the prior reference from Section 3.1, the added reference to “subject to this Framework” in Section 3.3 would be preceded with the added text “that is” so that the reference to “model” in this context reads “... new model that is subject to this Framework”

¹⁶ Similar to the prior reference from Section 3.3, the added reference to “subject to this Framework in Section 3.4 would be followed with the added text “that is” so that the reference to “model” in this context reads “... model subject to this Framework that is”

¹⁷ The reference to model in this instance also refers to a new model or a model change and the applicable text reads “... new model or model change” To improve the flow of the text, the words “or model change” would be deleted and “or changed” would be added after “new.” Also, the addition of “subject to this Framework” would be preceded by newly added words “that is” so that the reference to “model” in this case refers to “... new or changed model that is subject to this Framework”

(vii) Section 4.2 (Escalation)¹⁸ with respect to internal escalation of model performance monitoring oversight concerns.¹⁹

The proposed rule change makes several other technical and clarifying changes to the text of the Framework. It revises a sentence in Section 1 that currently states “FICC/GSD, FICC/MBSD, and NSCC are each a “Central Counterparty” or “CCP” and are collectively referred to as the “Central Counterparties” or “CCPs”. The proposed revisions to this sentence (i) changes the first reference to “Central Counterparty” from a capitalized term to an uncapitalized term, (ii) deletes the second reference to this term in this sentence (shown as “Central Counterparties”) such that “CCP” will be the sole defined term used to described central counterparties, and (iii) adds “below” after the words “referred to.”

It defines a term for “Clearing Agency Model Documentation” to reduce the repetition of listing numerous documents that are subordinate to the Framework with respect to model risk management. The proposed rule change updates the titles of certain Clearing Agency Model Documentation.²⁰ It also consolidates a reference to supplementary model risk documentation applicable to the Clearing Agencies that may be created from time to time into the newly defined term “Clearing Agency Model Documentation”. The proposed rule change adds this defined term to three sentences in Section 1 to replace references in the section to specifically named model documentation and supplemental model documentation. It also consolidates two references that respectively provide that the documentation that is specifically named in the Framework, and the supplemental documentation that may be created, are subordinate to the Framework and are reasonably and fairly implied by the Framework, into one such reference with respect to Clearing Agency Model Documentation.

The proposed rule change updates prior references to the Model Validation & Control unit (defined in the Framework as “MVC”), the name of which has recently changed, to instead refer generically to the unit within the Clearing Agencies’ Group Chief Risk office that performs second-line model risk management functions. This generic reference to this unit would be defined as “MRM” in the Framework and, therefore, all references to “MVC” would be replaced

¹⁸ In this instance the existing text does not use the word “model” even though it is referencing the escalation of issues relating to models. The applicable sentence currently begins with “[a]ll model performance monitoring oversight concerns”

¹⁹ See MRMF Filings, supra note 1, for additional information on the contents of these sections, and the Framework in general.

²⁰ Section 1 provides that this documentation each of which may be updated, amended, retired, or replaced from time to time. In this regard, the text would be updated to reflect that (i) “DTCC Model Validation Procedures” has been changed to “Model Validation Procedures”, (ii) “DTCC Model Performance Monitoring Procedures” has been changed to “DTCC Model Performance Standards & Policy”, and (iii) “DTCC Backtesting Procedures” has been changed to “Clearing Agency Backtesting Procedures.” Also, the “Quantitative Risk Management Policy” and “Quantitative Risk Management Monitoring Procedures” would be added as supporting documents.

with “MRM” beginning from the first use of “MVC” in Section 3, and with respect to all subsequent references to “MVC,” through and including the last reference to “MVC” in the second to last paragraph of Section 5.

In addition, a sentence in Section 3.1 that states “[a]ll Model Validations are performed by MVC, which consists of qualified persons who are free from influence from the persons responsible for the development or operation of the models being validated, as required by the risk management standards described in Section 2[.]” would be revised to delete the clause “as required by the risk management standards described in Section 2” and the comma immediately preceding that clause would be deleted. This clause is unnecessary because it follows in a paragraph that already makes reference to the referenced “risk management standards” in a similar context.

Also, a sentence in Section 3.8 describes that as part of model performance monitoring, on at least a monthly basis, a sensitivity analysis is performed on each CCP’s margin models, the key parameters and assumptions for backtesting of such margin models are reviewed, and modifications will be considered to ensure the backtesting practices are appropriate for determining the adequacy of such CCP’s margin resources. This sentence ends with a clause that states “which Quantitative Risk Management (“QRM”) performs as required by the risk management standards described in Section 2.” The reference to the requirements of Section 2 is unnecessary when naming the group that performs these tasks. Therefore, Clearing Agencies will delete the clause referencing these requirements, and a comma that proceeds it, from the sentence in Section 3.8 described immediately above, and add a new sentence, to follow the existing sentence, stating that Quantitative Risk Management performs these functions, without referencing the requirements described in Section 2. The new sentence will read “Quantitative Risk Management (“QRM”) performs these functions.” In addition, in this same sentence, the proposed rule change will delete “a” that currently appears before the words “sensitivity analysis”.

The proposed rule change also makes certain technical and grammatical corrections, including elimination of unused or misapplied defined terms. The proposed rule change deletes the text “in compliance with applicable legal requirements” from sentence in Section 1 (Executive Summary) that states that Section 3 of the Framework describes key aspects of the Framework in terms of the manner in which the Clearing Agencies identify, measure, monitor, and manage model risk. Referring to compliance with applicable legal requirements with respect to an individual section is unnecessary, because Section 1 contains a separate reference indicating that the Framework itself is designed to support compliance with the legal requirements set forth under the Covered Clearing Agency Standards relating to model risk management. The proposed rule change would also modify the beginning of the sentence described immediately above that currently includes the text “Section 3 describes key aspects of the Framework in terms of the manner in which the Clearing Agencies identify, measure, monitor, and manage model risk...” to delete the words “Framework in terms of the” to simplify the text by deleting a clause that does not enhance the meaning of the sentence.

Finally, the proposed rule change replaces a reference to “quantitative models” to “models” in the Executive Summary under Section 1. This use of “quantitative” is redundant because, by definition, models covered by the Framework are quantitative in nature.²¹

(b) Statutory Basis

DTC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,²² as well as Rule 17Ad-22(e)(4), (e)(6), and (e)(7) thereunder,²³ for the reasons described below.

Section 17A(b)(3)(F) of the Act²⁴ requires, *inter alia*, that the rules of a clearing agency be designed 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. As described above, the Framework describes the process by which the Clearing Agencies identify, measure, monitor, and manage the risks associated with the design, development, implementation, use, and validation of quantitative models. The quantitative models covered by the Framework are utilized by the Clearing Agencies, as applicable, to manage risks associated with the safeguarding of securities and funds that are in their custody or control or for which they are responsible, and the proposed rule change clarifies the applicability of the Framework to specific models, thereby better supporting the ability of the Clearing Agencies to perform these important risk management functions and comply with other regulatory requirements, including Rule 19b-4.

Rule 17Ad-22(e)(4), (e)(6), and (e)(7)²⁵ requires, *inter alia*, that a covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to manage risks associated with its credit risk management models, margin models, and liquidity risk management models, as applicable. As discussed above, the proposed rule change clarifies the applicability of the Framework to such types of models, thereby better supporting the ability of the Clearing Agencies to comply with these requirements. Therefore, the Clearing

²¹ As noted above, pursuant to Section 3.1 of the Framework, the term “model” refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates.

²² 15 U.S.C. 78q-1(b)(3)(F).

²³ 17 CFR 240.17Ad-22(e)(4), (e)(6) and (e)(7). References to Rule 17Ad-22(e)(6) and compliance therewith apply to the CCPs only and do not apply to DTC.

²⁴ 15 U.S.C. 78q-1(b)(3)(F).

²⁵ 17 CFR 240.17Ad-22(e)(4), (e)(6) and (e)(7). References to Rule 17Ad-22(e)(6) and compliance therewith apply to the CCPs only and do not apply to DTC.

Agencies believe that the proposed changes to the Framework are consistent with Rule 17Ad-22(e)(4), (e)(6), and (e)(7).²⁶

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

The Clearing Agencies do not believe that the proposed rule change would have any impact, or impose any burden, on competition because the proposed rule change simply clarifies the scope and administration of the Framework by the Clearing Agencies and would not effectuate any changes to the Clearing Agencies' model risk management tools as they currently apply to their respective Members or Participants.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

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

6. Extension of Time Period for Commission Action

Not applicable.

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

(a) The proposed rule change is to take effect immediately upon filing pursuant to Section 19(b)(3)(A) of the Act.²⁷

(b) In accordance with subparagraph (f)(1) of Rule 19b-4²⁸ under the Act, the proposed rule change effects a change to an existing rule that clarifies its meaning and administration.

(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

²⁶ Id.

²⁷ 15 U.S.C. 78s(b)(3)(A).

²⁸ 17 CFR 240.19b-4(f)(1).

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 – (i) Market Risk Tolerance Statement, (ii) Model Risk Tolerance Statement, (iii) DTCC Model Risk Management Policy, (iv) DTCC Model Validation Procedures, (v) DTCC Model Performance Monitoring Standards & Policy, (vi) Quantitative Risk Management Policy, (vii) Quantitative Risk Management Procedures, and (viii) Clearing Agency Backtesting Procedures. ***Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 3 pursuant to 17 CFR 240.24b-2 being requested.***

Exhibit 4 – Not applicable.

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

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-DTC-2021-013)

[DATE]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Clearing Agency Model 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 __, 2021, The Depository Trust Company (“DTC”) 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. DTC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(1) 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 clarifies the scope of the Clearing Agency Model Risk Management Framework (“Framework”) of DTC and its affiliates National Securities Clearing Corporation (“NSCC”) and Fixed Income Clearing Corporation (“FICC,” and together with NSCC, the “CCPs,” and the CCPs together with DTC, the “Clearing

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)(1).

Agencies”).⁵ The Framework has been adopted by the Clearing Agencies to support their compliance with Rule 17Ad-22(e) (the “Covered Clearing Agency Standards”).⁶ The proposed rule change⁷ would amend the Framework to clarify that the Framework applies solely to models⁸ utilized by the Clearing Agencies that are subject to the model risk management requirements set forth in Rule 17Ad-22(e)(4), (e)(6), and (e)(7) under the Act.⁹ The proposed rule change also makes other technical and clarifying changes to the text, as more fully described below.

⁵ The Framework sets forth the model risk management practices that the Clearing Agencies follow to identify, measure, monitor, and manage the risks associated with the design, development, implementation, use, and validation of quantitative models. The Framework is filed as a rule of the Clearing Agencies. See Securities Exchange Act Release No. 81485 (August 25, 2017), 82 FR 41433 (August 31, 2017) (File Nos. SR-DTC-2017-008; SR-FICC-2017-014; SR-NSCC-2017-008) (“2017 Notice”) and Securities Exchange Act Release No. 88911 (May 20, 2020), 85 FR 31828 (May 27, 2020) (File Nos. SR-DTC-2020-008; SR-FICC-2020-004; SR-NSCC-2020-008) (“2020 Notice”) (collectively, the MRMF Filings”).

⁶ 17 CFR 240.17Ad-22(e). Each of DTC, NSCC and FICC is a “covered clearing agency” as defined in Rule 17Ad-22(a)(5) and must comply with Rule 17Ad-22(e).

⁷ Amending the Framework does not require any changes to the Rules, By-Laws and Organization Certificate of DTC, the Rulebook of the Government Securities Division of FICC, the Clearing Rules of the Mortgage-Backed Securities Division of FICC, or the Rules & Procedures of NSCC, because the Framework is a standalone document. See MRMF Filings, supra note 5.

⁸ See infra note 16 for the definition of “model” as adopted by the Clearing Agencies pursuant to the Framework.

⁹ 17 CFR 240.17Ad-22(e)(4), (e)(6) and (e)(7). References to Rule 17Ad-22(e)(6) and compliance therewith apply to the CCPs only and do not apply to DTC.

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 proposed rule change clarifies the scope of the Framework to make clear that it applies solely to models that are subject to Rule 17Ad-22(e)(4), (e)(6), and (e)(7).¹⁰ The proposed rule change also makes other technical and clarifying changes to the text.

Background

The Framework is maintained by the Clearing Agencies to support their compliance with the requirements of the Covered Clearing Agency Standards relating to model risk management. The Covered Clearing Agency Standards require that the Clearing Agencies take a variety of steps to manage the models that they employ in identifying, measuring, monitoring, and managing their respective credit exposures and liquidity risks, including that the Clearing Agencies conduct daily backtesting of model performance, periodic sensitivity analyses of models, and annual validation of models.¹¹

¹⁰ Id.

¹¹ Id.

The Framework outlines the applicable regulatory requirements described above, describes the risks that the Clearing Agencies' model risk management program are designed to mitigate, and sets forth specific model risk management practices and requirements adopted by the Clearing Agencies in order to ensure compliance with the Covered Clearing Agency Standards. These practices and requirements include, among other things, the maintenance of a model inventory, a process for rating model materiality and complexity, processes for performing model validations and resolving findings identified during model validation, and processes for model performance monitoring, including backtesting and sensitivity analyses. The Framework also describes applicable internal ownership and governance requirements.¹²

The Depository Trust & Clearing Corporation ("DTCC"), the parent company of the Clearing Agencies, has established a robust model risk management program, which applies to models employed across multiple business lines and corporate functions.¹³ DTCC may implement changes in its model risk management program from time to time, some of which changes may impact only lower-risk, lower-materiality models that are not subject to the specific model risk management requirements of the Covered Clearing Agency Standards. The Clearing Agencies previously adopted changes to the Framework in connection with proposed enhancements to their model risk management program, which rule changes also deleted the defined term "Clearing Agency Model" on grounds

¹² See MRMF Filings, supra note 5, for additional information on the contents of the Framework.

¹³ DTCC operates on a shared services model with respect to the Clearing Agencies. Most corporate functions are established and managed on an enterprise-wide basis pursuant to intercompany agreements under which it is generally DTCC that provides a relevant service to a Clearing Agency.

that the Framework related solely to models of the Clearing Agencies, and it was unnecessary to use the modifier “Clearing Agency”.¹⁴ In view of continued expansion of DTCC’s model risk management program, however, the Clearing Agencies desire to avoid any doubt as to the applicability of the Framework to specific models, and therefore propose to adopt further clarifying changes to the text of the Framework.

Proposed Rule Change

Section 1 (Executive Summary) of the Framework recites the regulatory requirements applicable to model risk management for credit risk models, liquidity risk models, and margin models that are set forth in the Covered Clearing Agency Standards. The proposed rule change clarifies the Framework’s scope by (i) amending Section 1 of the Framework to add a sentence that states that the Framework supports the Clearing Agencies in complying with their rule filing requirements under Rule 19b-4¹⁵ because the Framework itself is a rule that governs the Clearing Agencies’ management of their credit risk, margin, and liquidity risk management models and (ii) adding a footnote that states that only those models that satisfy the definition of “model” set forth in Section 3.1 of the Framework, and that support the Clearing Agencies’ compliance with the Standards, are models subject to the Framework and, in contrast, models of the Clearing Agencies that would satisfy the definition of “model” as set forth under Section 3.1 of the Framework, but do not support the Clearing Agencies’ compliance with the Standards, are not subject to the Framework.¹⁶ In this regard, the proposed rule change would also amend certain

¹⁴ See 2020 Notice, supra note 5.

¹⁵ 17 CFR 240.19b-4.

¹⁶ Pursuant to Section 3.1 of the Framework, the Clearing Agencies have adopted the following definition of “model”: “[M]odel” refers to a quantitative method,

references to models in subsequent sections to refer to models “subject to this Framework”. Specifically, the text “subject to this Framework” would modify references to models in (i) Section 3.1 with respect to (a) models to be added to the Clearing Agencies’ model inventory and (b) models subject to validation as set forth in Section 2,¹⁷ (ii) Section 3.2 (Model Materiality and Complexity) with respect to the assignment of complexity ratings to models,¹⁸ (iii) Section 3.3 (Full Model Validation) with respect to a requirement relating to the validation of new models,¹⁹ (iv) Section 3.4 (Periodic Model

system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. A “model” consists of three components: an information input component, which delivers assumptions and data to the model; a processing component, which transforms inputs into estimates; and a reporting component, which translates the estimates into useful business information. The definition of ‘model’ also covers quantitative approaches whose inputs are partially or wholly qualitative or based on expert judgment, provided that the output is quantitative in nature. See 2017 Notice, supra note 5. See also Supervisory Guidance on Model Risk Management, SR Letter 11-7 Attachment, dated April 4, 2011, issued by the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, available at <https://www.federalreserve.gov/supervisionreg/srletters/sr1107a1.pdf>, page 3.

¹⁷ Also in this regard, the applicable sentence that this reference would be added to would also replace the words “All models (including, without limitation, all credit risk models margin models, and liquidity risk models)” with “All models.” The described reference to “subject to this Framework” would be added after the newly added text “All models.”

¹⁸ In this instance, the new text “subject to this Framework” would be preceded with the added text “that is” so that the reference to “model” in this context reads “... model that is subject to this Framework”

¹⁹ Similar to the prior reference from Section 3.1, the added reference to “subject to this Framework” in Section 3.3 would be preceded with the added text “that is” so that the reference to “model” in this context reads “... new model that is subject to this Framework”

Validation) with respect to periodic validation of models,²⁰ (v) Section 3.5 (Model Change Management) with respect to models that require changes in either structure or technique, (vi) Section 3.7 (Resolution of Model Validation Findings) with respect to internal tracking and reporting relating to model validations²¹ and (vii) Section 4.2 (Escalation)²² with respect to internal escalation of model performance monitoring oversight concerns.²³

The proposed rule change makes several other technical and clarifying changes to the text of the Framework. It revises a sentence in Section 1 that currently states “FICC/GSD, FICC/MBSD, and NSCC are each a “Central Counterparty” or “CCP” and are collectively referred to as the “Central Counterparties” or “CCPs”. The proposed revisions to this sentence (i) changes the first reference to “Central Counterparty” from a capitalized term to an uncapitalized term, (ii) deletes the second reference to this term in

²⁰ Similar to the prior reference from Section 3.3, the added reference to “subject to this Framework in Section 3.4 would be followed with the added text “that is” so that the reference to “model” in this context reads “... model subject to this Framework that is”

²¹ The reference to model in this instance also refers to a new model or a model change and the applicable text reads “... new model or model change” To improve the flow of the text, the words “or model change” would be deleted and “or changed” would be added after “new.” Also, the addition of “subject to this Framework” would be preceded by newly added words “that is” so that the reference to “model” in this case refers to “... new or changed model that is subject to this Framework”

²² In this instance the existing text does not use the word “model” even though it is referencing the escalation of issues relating to models. The applicable sentence currently begins with “[a]ll model performance monitoring oversight concerns”

²³ See MRMF Filings, supra note 5, for additional information on the contents of these sections, and the Framework in general.

this sentence (shown as “Central Counterparties”) such that “CCP” will be the sole defined term used to describe central counterparties, and (iii) adds “below” after the words “referred to.”

It defines a term for “Clearing Agency Model Documentation” to reduce the repetition of listing numerous documents that are subordinate to the Framework with respect to model risk management. The proposed rule change updates the titles of certain Clearing Agency Model Documentation.²⁴ It also consolidates a reference to supplementary model risk documentation applicable to the Clearing Agencies that may be created from time to time into the newly defined term “Clearing Agency Model Documentation”. The proposed rule change adds this defined term to three sentences in Section 1 to replace references in the section to specifically named model documentation and supplemental model documentation. It also consolidates two references that respectively provide that the documentation that is specifically named in the Framework, and the supplemental documentation that may be created, are subordinate to the Framework and are reasonably and fairly implied by the Framework, into one such reference with respect to Clearing Agency Model Documentation.

The proposed rule change updates prior references to the Model Validation & Control unit (defined in the Framework as “MVC”), the name of which has recently

²⁴ Section 1 provides that this documentation each of which may be updated, amended, retired, or replaced from time to time. In this regard, the text would be updated to reflect that (i) “DTCC Model Validation Procedures” has been changed to “Model Validation Procedures”, (ii) “DTCC Model Performance Monitoring Procedures” has been changed to “DTCC Model Performance Standards & Policy”, and (iii) “DTCC Backtesting Procedures” has been changed to “Clearing Agency Backtesting Procedures.” Also, the “Quantitative Risk Management Policy” and “Quantitative Risk Management Monitoring Procedures” would be added as supporting documents.

changed, to instead refer generically to the unit within the Clearing Agencies' Group Chief Risk office that performs second-line model risk management functions. This generic reference to this unit would be defined as "MRM" in the Framework and, therefore, all references to "MVC" would be replaced with "MRM" beginning from the first use of "MVC" in Section 3, and with respect to all subsequent references to "MVC," through and including the last reference to "MVC" in the second to last paragraph of Section 5.

In addition, a sentence in Section 3.1 that states "[a]ll Model Validations are performed by MVC, which consists of qualified persons who are free from influence from the persons responsible for the development or operation of the models being validated, as required by the risk management standards described in Section 2[.]" would be revised to delete the clause "as required by the risk management standards described in Section 2" and the comma immediately preceding that clause would be deleted. This clause is unnecessary because it follows in a paragraph that already makes reference to the referenced "risk management standards" in a similar context.

Also, a sentence in Section 3.8 describes that as part of model performance monitoring, on at least a monthly basis, a sensitivity analysis is performed on each CCP's margin models, the key parameters and assumptions for backtesting of such margin models are reviewed, and modifications will be considered to ensure the backtesting practices are appropriate for determining the adequacy of such CCP's margin resources. This sentence ends with a clause that states "which Quantitative Risk Management ("QRM") performs as required by the risk management standards described in Section 2." The reference to the requirements of Section 2 is unnecessary when naming the

group that performs these tasks. Therefore, Clearing Agencies will delete the clause referencing these requirements, and a comma that proceeds it, from the sentence in Section 3.8 described immediately above, and add a new sentence, to follow the existing sentence, stating that Quantitative Risk Management performs these functions, without referencing the requirements described in Section 2. The new sentence will read “Quantitative Risk Management (“QRM”) performs these functions.” In addition, in this same sentence, the proposed rule change will delete “a” that currently appears before the words “sensitivity analysis”.

The proposed rule change also makes certain technical and grammatical corrections, including elimination of unused or misapplied defined terms. The proposed rule change deletes the text “in compliance with applicable legal requirements” from sentence in Section 1 (Executive Summary) that states that Section 3 of the Framework describes key aspects of the Framework in terms of the manner in which the Clearing Agencies identify, measure, monitor, and manage model risk. Referring to compliance with applicable legal requirements with respect to an individual section is unnecessary, because Section 1 contains a separate reference indicating that the Framework itself is designed to support compliance with the legal requirements set forth under the Covered Clearing Agency Standards relating to model risk management. The proposed rule change would also modify the beginning of the sentence described immediately above that currently includes the text “Section 3 describes key aspects of the Framework in terms of the manner in which the Clearing Agencies identify, measure, monitor, and manage model risk...” to delete the words “Framework in terms of the” to simplify the text by deleting a clause that does not enhance the meaning of the sentence.

Finally, the proposed rule change replaces a reference to “quantitative models” to “models” in the Executive Summary under Section 1. This use of “quantitative” is redundant because, by definition, models covered by the Framework are quantitative in nature.²⁵

2. Statutory Basis

DTC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,²⁶ as well as Rule 17Ad-22(e)(4), (e)(6), and (e)(7) thereunder,²⁷ for the reasons described below.

Section 17A(b)(3)(F) of the Act²⁸ requires, inter alia, that the rules of a clearing agency be designed 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. As described above, the Framework describes the process by which the Clearing Agencies identify, measure, monitor, and manage the risks associated with the design, development, implementation, use, and validation of quantitative models. The quantitative models covered by the Framework are utilized by the Clearing Agencies, as applicable, to manage risks associated with the safeguarding of securities and funds that are in their custody or control or for which they are responsible, and the proposed rule change

²⁵ As noted above, pursuant to Section 3.1 of the Framework, the term “model” refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates.

²⁶ 15 U.S.C. 78q-1(b)(3)(F).

²⁷ 17 CFR 240.17Ad-22(e)(4), (e)(6) and (e)(7). References to Rule 17Ad-22(e)(6) and compliance therewith apply to the CCPs only and do not apply to DTC.

²⁸ 15 U.S.C. 78q-1(b)(3)(F).

clarifies the applicability of the Framework to specific models, thereby better supporting the ability of the Clearing Agencies to perform these important risk management functions and comply with other regulatory requirements, including Rule 19b-4.

Rule 17Ad-22(e)(4), (e)(6), and (e)(7)²⁹ requires, inter alia, that a covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to manage risks associated with its credit risk management models, margin models, and liquidity risk management models, as applicable. As discussed above, the proposed rule change clarifies the applicability of the Framework to such types of models, thereby better supporting the ability of the Clearing Agencies to comply with these requirements. Therefore, the Clearing Agencies believe that the proposed changes to the Framework are consistent with Rule 17Ad-22(e)(4), (e)(6), and (e)(7).³⁰

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

The Clearing Agencies do not believe that the proposed rule change would have any impact, or impose any burden, on competition because the proposed rule change simply clarifies the scope and administration of the Framework by the Clearing Agencies and would not effectuate any changes to the Clearing Agencies' model risk management tools as they currently apply to their respective Members or Participants.

²⁹ 17 CFR 240.17Ad-22(e)(4), (e)(6) and (e)(7). References to Rule 17Ad-22(e)(6) and compliance therewith apply to the CCPs only and do not apply to DTC.

³⁰ Id.

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

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

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)³¹ of the Act and paragraph (f)³² of Rule 19b-4 thereunder. 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. Please include File Number SR-DTC-2021-013 on the subject line.

³¹ 15 U.S.C 78s(b)(3)(A).

³² 17 CFR 240.19b-4(f).

Paper Comments:

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

All submissions should refer to File Number SR-DTC-2021-013. 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 DTC 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-DTC-2021-013 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.³³

Secretary

³³ 17 CFR 200.30-3(a)(12).

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EXHIBIT 5

Bold, Underlined text indicates additions.

~~Bold, Strikethrough~~ text indicates deletions.

CLEARING AGENCY MODEL RISK MANAGEMENT FRAMEWORK

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