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Page 1 of \* 30

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
Form 19b-4

File No. \* SR 2023 - \* 003

Amendment No. (req. for Amendments \*)

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"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input checked="" type="checkbox"/> 19b-4(f)(6)		
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Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010  
Section 806(e)(1) \*

Section 806(e)(2) \*

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934  
Section 3C(b)(2) \*

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

**Description**

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

Update the Clearing Agency Securities Valuation 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 \*  Last Name \*

Title \*

E-mail \*

Telephone \*  Fax

**Signature**

Pursuant to the requirements of the Securities Exchange of 1934, The Depository Trust Company has duty caused this filing to be signed on its behalf by the undersigned thereunto duty authorized.

Date

(Title \*)

By

(Name \*)

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

Date: 2023.03.28  
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Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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Narrative (DTC) - Securities Valuation

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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Exh 1A (DTC) - Securities Valuation F

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 Advanced 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 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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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 Sent As Paper Document

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

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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 Sent As Paper Document

**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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Exh 5 (Redacted) - Securities Valuation

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item 1 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**

Add Remove View

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) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> The Depository Trust Company (“DTC”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to update the Clearing Agency Securities Valuation Framework (“Framework”) of DTC and its affiliates, Fixed Income Clearing Corporation (“FICC”) and National Securities Clearing Corporation (“NSCC,” and together with FICC, the central counterparties or “CCPs,” and the CCPs together with DTC, the “Clearing Agencies”), as described below. The proposed changes to the Framework would apply to DTC, NSCC, and both of FICC’s divisions, the Government Securities Division and the Mortgage-Backed Securities Division. The proposed modifications to the Framework are annexed hereto as Exhibit 5.

(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 Clearing Agencies’ Boards of Directors on February 14, 2023.

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

### **(a) Purpose**

The proposed rule change consists of modifications to the Framework to clarify the Clearing Agencies’ practices concerning the valuation of (i) securities eligible for clearance and settlement processing by the applicable Clearing Agency and (ii) with respect to the CCPs, eligible securities in their respective Clearing Funds (each, a “CUSIP”). Specifically, the proposed rule change would clarify certain aspects of the Framework concerning (i) the selection of third-party pricing vendors (“Pricing Vendors”); (ii) the monitoring and review of Pricing Vendor data; (iii) the processing and use of Pricing Vendor data; and (iv) other non-substantive aspects of the Framework. The proposed changes are discussed in detail below.

### **(i) Background**

The Clearing Agencies maintain a Framework that sets forth the manner in which each of the Clearing Agencies identifies, measures, monitors, and manages the risks related to the pricing of securities processed or otherwise held by such Clearing Agencies, including (i) CUSIPs eligible for clearance and settlement processing by the applicable Clearing Agency and (ii) with

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

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

respect to the CCPs, eligible CUSIPs in their respective Clearing Funds.<sup>3</sup> The Framework describes, among other things, the Clearing Agencies' use of Pricing Vendors and the monitoring, reviewing and processing of pricing data for end-of-day and intraday pricing.

The Framework is owned and managed by an officer within the DTCC Securities Valuation team, which is part of the Group Chief Risk Office of DTCC, on behalf of the Clearing Agencies.<sup>4</sup> The processes and systems described in the Framework, and any policies, procedures, or other documents created to support those processes, support the Clearing Agencies' compliance with the requirements of Rule 17Ad-22(e)(4)(i)<sup>5</sup> and, with respect to the CCPs, Rule 17Ad-22(e)(6)(iv)<sup>6</sup> under the Act.

(ii) Proposed Rule Change

The Clearing Agencies propose to revise the Framework to improve the accuracy and clarity of the descriptions of the Clearing Agencies' practices concerning securities valuation. Specifically, the Clearing Agencies propose to revise the Framework to: (i) clarify certain aspects of the Pricing Vendor selection process; (ii) clarify the description of the Clearing Agencies' practices for monitoring and reviewing Pricing Vendor data; (iii) clarify the description of the Clearing Agencies' processes concerning the use of end-of day and intraday CUSIP pricing data; and (iv) make other non-substantive clarifying and clean-up changes to the Framework. Each of these categories of changes are discussed in further detail below.

*Selection of Pricing Vendors*

Pursuant to the Framework, the Clearing Agencies select Pricing Vendors based on a review of their services, which includes a review of their securities coverage, price quality checks, and other due diligence prior to engagement. Once a Pricing Vendor is engaged, the Securities Valuation team assesses the reliability of each Pricing Vendor at least annually.

The Clearing Agencies propose minor modifications to the Framework concerning the Pricing Vendor selection process. The Clearing Agencies propose to revise the Framework to state that Pricing Vendors are selected based on a "service review" as opposed to a "review of their service." The proposed rule change is not intended to reflect a material change to the Pricing Vendor selection process, but rather, would more accurately reflect the scope of any

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<sup>3</sup> See Securities Exchange Act Release No. 82006 (November 2, 2017), 82 FR 51892 (November 8, 2017) (SR-DTC-2017-016; SR-NSCC-2017-016; SR-FICC-2017-020).

<sup>4</sup> The parent company of the Clearing Agencies is The Depository Trust & Clearing Corporation ("DTCC"). DTCC operates on a shared services model with respect to the Clearing Agencies. Most corporate functions are established and managed on an enterprise-wide basis pursuant to intercompany agreements under which it is generally DTCC that provides a relevant service to a Clearing Agency.

<sup>5</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>6</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

potential review performed for Pricing Vendors, which may include factors beyond just the specific service provided (e.g., it may include a review of certain attributes of the Pricing Vendor itself).

The Clearing Agencies also propose to revise the Framework to clarify that when reviewing the reliability of a Pricing Vendor, the Clearing Agencies would consider whether the Pricing Vendor actually provides accurate and timely pricing data as opposed to whether the Pricing Vendor is “able to provide” accurate and timely data. The Clearing Agencies believe the proposed rule change would more clearly and accurately reflect the expectation that the Pricing Vendor has actually provided accurate and timely pricing data and thereby further ensure that the Clearing Agencies’ policies and procedures are reasonably designed to use reliable sources of timely price data.

#### *Monitoring and Review of Pricing Vendor Data*

Pursuant to the Framework, the Securities Valuation team monitors and reviews each Pricing Vendor’s pricing at least once each business day. This includes a review of whether any CUSIP’s price has remained unchanged for an extended period of time, whether a CUSIP has been dropped from the Pricing Vendor’s file and whether other circumstances exist that may call into question the reliability of any CUSIP’s price.

The Clearing Agencies propose to make certain non-substantive clarifying and grammatical corrections to the Framework concerning the monitoring of Pricing Vendors. The proposed changes would clarify that the scope of daily monitoring and review includes a determination of whether (i) an “eligible” CUSIP’s price has remained unchanged for an extended period (as opposed to inferring “all CUSIPS” for which a vendor may provide pricing in a given file) and (ii) other “relevant” circumstances exist that “could” call into question the reliability of a CUSIP’s price. These proposed changes are intended to enhance the clarity and drafting of the Framework and are not intended to result in a material change to the monitoring and review processes.

#### *Processing and Use of Pricing Vendor Data*

The Framework currently provides that the Securities Valuation team assigns each CUSIP a primary source Pricing Vendor and a secondary source Pricing Vendor and that, in the event that the primary Pricing Vendor becomes unavailable, unreliable, or otherwise unusable with respect to a CUSIP, the secondary Pricing Vendor will be designated as the replacement for the primary Pricing Vendor with respect to such CUSIP. The Framework also describes the processing of end-of-day and intraday pricing from Pricing Vendors. Specifically, the Framework provides that each CUSIP’s price is date stamped (and in the case of intraday pricing, time-stamped) and identified with its Pricing Vendor source, and in the event that both primary Pricing Vendor and secondary Pricing Vendor become unavailable, unreliable, or otherwise unusable with respect to a CUSIP, the Securities Valuation team assigns such CUSIP its last available price.

### Pricing Vendor Assignments

The Clearing Agencies propose to revise the Framework to remove the statement that the Securities Valuation team assigns each CUSIP a primary and secondary source Pricing Vendor and remove corresponding references to “Primary Pricing Vendor” and “Secondary Pricing Vendor” throughout the Framework. The Clearing Agencies maintain relationships with more than one Pricing Vendor for the majority of their products; however, this may not be the case in all circumstances. For example, the Clearing Agencies may not maintain multiple Pricing Vendors for products that are cleared based on the pricing of another similar product for which they also maintain Pricing Vendor relationships. The Clearing Agencies also may not perform intra-day pricing for certain asset classes that are not subject to clearance and netting services. The Clearing Agencies therefore believe the proposed change would more accurately reflect the Clearing Agencies’ practices for maintaining Pricing Vendors. The proposed changes would further clarify that the Clearing Agencies may not maintain “primary” and “secondary” vendors for all CUSIPs, and that the Clearing Agencies may use whichever Pricing Vendor proves to be available and reliable for a CUSIP at a given time without relying on such “primary” and “secondary” designations. The proposed changes would also provide additional clarity and flexibility for the Clearing Agencies to maintain more than two Pricing Vendors for a product area/CUSIP or, where appropriate, reduce the number of Pricing Vendor relationships it may maintain for any given product area or CUSIP, as governed by applicable Securities Valuation policies and procedures.

The Clearing Agencies would also revise the Framework to specify that in the event a Pricing Vendor becomes unavailable, unreliable, or otherwise unusable with respect to a CUSIP, back-up pricing would be utilized to provide accurate and timely pricing data with respect to such CUSIP. The proposed change would more accurately reflect that backup pricing may be sourced from an alternative Pricing Vendor, where applicable, or may also be determined, in the absence of an alternative Pricing Vendor, pursuant to the Clearing Agencies’ applicable policies and procedures to ensure that timely pricing data is applied.

### End-of-Day and Intraday Price Processing

The Clearing Agencies also propose to clarify their processes for recording end-of-day and intraday pricing. The Clearing Agencies would revise the Framework to clarify that, with respect to end-of-day and intraday pricing, if Pricing Vendor data is unavailable, unreliable, or otherwise unusable for a CUSIP, the Securities Valuation team does not “assign” the last available price to the CUSIP, but rather, the last available price is recorded in the Clearing Agencies’ pricing database, which is consumable for applicable stakeholders. The proposed rule change would also further clarify that this process would apply if pricing data were unavailable, unreliable, or otherwise unusable from “all” Pricing Vendors, and not just the primary or secondary Pricing Vendors, for the reasons discussed above. The Clearing Agencies believe the proposed changes concerning end-of-day and intraday price processing would improve the accuracy and clarity of the Framework.

*Other Non-Substantive Clean-Up Changes*

Finally, the Clearing Agencies propose to make several non-substantive changes to the Framework. For example, the Clearing Agencies would revise a statement that the Securities Valuation team values each “applicable” CUSIP to say each “eligible” CUSIP to align this statement more clearly with the scope of the policy (i.e., those securities eligible for clearance and settlement or for each CCPs’ clearing fund). The Clearing Agencies would also revise the definition of “Pricing Vendors” to define them as third-party pricing “suppliers” as opposed to “vendors” to eliminate redundancy in the definition and align with other language used in the Framework concerning their role in supplying prices. Additionally, the Clearing Agencies would make several non-substantive, grammatical, and punctuation-related clean-up changes throughout the Framework (including revisions to a footnote in the policy regarding the possibility that certain CUSIPs might not be priced as expected). The proposed changes are not intended to change the meaning or purpose of the Framework but rather improve the drafting and clarity of the Framework.

(b) Statutory Basis

The Clearing Agencies believe that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, the Clearing Agencies believe the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act<sup>7</sup> and Rules 17Ad-22(e)(4)(i)<sup>8</sup> and (e)(6)(iv)<sup>9</sup> under the Act, for the reasons set forth below.

Section 17A(b)(3)(F) of the Act<sup>10</sup> requires, in part, that the rules of a 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. The proposed rule change would improve descriptions of the Clearing Agencies’ processes for selecting Pricing Vendors, reviewing the reliability of Pricing Vendors, monitoring and reviewing each Pricing Vendor’s pricing data, and the processing and use of Pricing Vendor data for securities valuation purposes. The proposed rule change is designed to improve the accuracy and clarity of the Framework document. The Framework and the policies and procedures that support the Framework help assure that each Clearing Agency is using reliable sources of timely price data for collateral valuation, risk management and settlement purposes. Since margin and collateral play key roles in the applicable Clearing Agency’s risk management process, having accurate margin system and collateral valuation facilitates the Clearing Agencies’ ability to continue the prompt and accurate clearance and settlement of securities transactions and assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible. The Clearing

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<sup>7</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>8</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>9</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

<sup>10</sup> 15 U.S.C. 78q-1(b)(3)(F).

Agencies therefore believe that enhancing the quality and accuracy of the Framework is consistent with the requirements of Section 17A(b)(3)(F) of the Act.

Rule 17Ad-22(e)(4)(i)<sup>11</sup> under the Act requires that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. The Framework describes how the Clearing Agencies identify, measure, monitor, and manage the risks related to the pricing of securities processed or otherwise held by the Clearing Agencies. The processes, systems, and controls used by the Clearing Agencies to identify, measure, monitor, and manage such risks, as described in the Framework, and the policies and procedures that support these activities, help assure that each Clearing Agency is using (i) reliable sources of timely price data when pricing securities processed or otherwise held by the applicable Clearing Agency and (ii) procedures and sound valuation models when pricing data are not readily available or reliable. The proposed rule change would enhance the Framework by providing additional clarity and accuracy concerning the Clearing Agencies' securities valuation practices, and specifically, its processes for selecting Pricing Vendors, reviewing the reliability of Pricing Vendors, monitoring and reviewing each Pricing Vendor's pricing data, and the processing and use of Pricing Vendor data. By appropriately pricing securities, the Clearing Agencies can more accurately calculate the value of the securities that the Clearing Agencies monitor or hold for risk management purposes. The proposed changes are therefore intended to facilitate the maintenance of policies and procedures that are reasonably designed to effectively identify, measure, monitor and manage the Clearing Agencies' credit exposures to participants and those arising from its payment, clearing, and settlement processes and determine the amount of financial resources required to cover its credit exposure to each participant with a high degree of confidence in accordance with the requirements of Rule 17Ad-22(e)(4)(i).

Rule 17Ad-22(e)(6)(iv)<sup>12</sup> under the Act requires each covered clearing agency that is a CCP to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses reliable sources of timely price data and uses procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable. The Framework describes how the CCPs identify, measure, monitor, and manage the risks related to the pricing of securities processed or otherwise held by the CCPs. As noted above, the proposed rule change would enhance the Framework by providing additional clarity and accuracy concerning the Clearing Agencies' securities valuation practices, and specifically, its processes for selecting Pricing Vendors, reviewing the reliability of Pricing Vendors, monitoring and reviewing each Pricing Vendor's pricing data, and the processing and use of Pricing Vendor data. The processes, systems, and controls used by the CCPs to identify, measure, monitor, and manage such risks, as described in the Framework, and the policies and

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<sup>11</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>12</sup> 17 CFR 240.17Ad-22(e)(6)(iv).



procedures that support these activities, help assure that each CCP is using reliable sources of timely price data as well as procedures and sound valuation models when pricing data are not readily available or reliable. The Clearing Agencies therefore believe the proposed changes to the Framework are consistent with the requirements of Rule 17Ad-22(e)(6)(iv).

#### **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. The proposed changes would enhance the Framework by providing additional clarity and accuracy concerning the Clearing Agencies' securities valuation processes. The Framework itself, and the proposed rule changes described herein, would not advantage or disadvantage any particular participant or user of the Clearing Agencies' services or unfairly inhibit access to the Clearing Agencies' services. The Clearing Agencies therefore do not believe that the proposed rule change would have any impact, or impose any burden, 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 received or solicited any written comments relating to this proposal. If any written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit-comments>. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at [tradingandmarkets@sec.gov](mailto:tradingandmarkets@sec.gov) or 202-551-5777.

The Clearing Agencies reserve the right not to respond to any comments received.

#### **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 change is to take effect immediately upon filing pursuant to paragraph (A) of Section 19(b)(3) of the Act<sup>13</sup> and subparagraph (f)(6) of Rule 19b-4<sup>14</sup> thereunder.

(b) The proposed rule change effects a change that: (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.

The proposed rule change would enhance the Framework by (i) improving the accuracy and clarity of the descriptions of the Clearing Agencies' practices concerning securities valuation and (ii) providing additional flexibility, where necessary, for the Clearing Agencies to implement effective policies, procedures, and practices under the Framework. For example, the proposed rule change would make minor modifications and clarifications to the Framework concerning the Clearing Agencies' Pricing Vendor selection process and the monitoring and review of Pricing Vendor data, which are not intended to reflect material changes to the Clearing Agencies' current practices for such processes. The proposed rule change would also clarify the Clearing Agencies' practices for maintaining Pricing Vendors (e.g., removing specific requirements for primary and secondary vendors) and provide additional flexibility concerning the number of Pricing Vendor relationships maintained by the Clearing Agencies and the backup pricing processes used by the Clearing Agencies in the event certain price vendors/data are unavailable. The Clearing Agencies believe that the proposed enhancements would improve the overall quality and accuracy of the Framework but would not significantly affect the protection of investors or the public interest.

Furthermore, the Clearing Agencies do not believe that the proposed rule change would have any impact, or impose any burden, on competition. As discussed above, the proposed changes would enhance the Framework by providing additional clarity and accuracy concerning the Clearing Agencies' internal securities valuation processes. The Framework itself, and the proposed rule changes described herein, would not advantage or disadvantage any particular participant or user of the Clearing Agencies' services or unfairly inhibit access to the Clearing Agencies' services. The Clearing Agencies therefore do not believe that the proposed rule change would impose any significant burden on competition.

DTC has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business

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<sup>13</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>14</sup> 17 CFR 240.19b-4(f)(6).

days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.<sup>15</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

(c) Not applicable.

(d) Not applicable.

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

Not applicable.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notice Filed Pursuant to Section 806(e) of the Payment, Clearing, and Settlement Supervision Act of 2010**

Not applicable.

**11. Exhibits**

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Clearing Agency Securities Valuation Framework. **Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 5 is being requested pursuant to 17 CFR 240.24b-2.**

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<sup>15</sup> See 17 CFR 240.19b-4(f)(6).

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_]; File No. SR-DTC-2023-003)

[DATE]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Update the Clearing Agency Securities Valuation Framework

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March \_\_, 2023, 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 Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consists of amendments to the Clearing Agency Securities Valuation Framework (“Framework”) of DTC and its affiliates, Fixed Income Clearing Corporation (“FICC”) and National Securities Clearing Corporation (“NSCC,” and together with FICC, the central counterparties or “CCPs,” and the CCPs together

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

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

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

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

with DTC, the “Clearing Agencies”), as described below. The proposed changes to the Framework would apply to DTC, NSCC, and both of FICC’s divisions, the Government Securities Division and the Mortgage-Backed Securities Division.

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 consists of modifications to the Framework to clarify the Clearing Agencies’ practices concerning the valuation of (i) securities eligible for clearance and settlement processing by the applicable Clearing Agency and (ii) with respect to the CCPs, eligible securities in their respective Clearing Funds (each, a “CUSIP”). Specifically, the proposed rule change would clarify certain aspects of the Framework concerning (i) the selection of third-party pricing vendors (“Pricing Vendors”); (ii) the monitoring and review of Pricing Vendor data; (iii) the processing and use of Pricing Vendor data; and (iv) other non-substantive aspects of the Framework. The proposed changes are discussed in detail below.

(i) Background

The Clearing Agencies maintain a Framework that sets forth the manner in which each of the Clearing Agencies identifies, measures, monitors, and manages the risks related to the pricing of securities processed or otherwise held by such Clearing Agencies, including (i) CUSIPs eligible for clearance and settlement processing by the applicable Clearing Agency and (ii) with respect to the CCPs, eligible CUSIPs in their respective Clearing Funds.<sup>5</sup> The Framework describes, among other things, the Clearing Agencies' use of Pricing Vendors and the monitoring, reviewing and processing of pricing data for end-of-day and intraday pricing.

The Framework is owned and managed by an officer within the DTCC Securities Valuation team, which is part of the Group Chief Risk Office of DTCC, on behalf of the Clearing Agencies.<sup>6</sup> The processes and systems described in the Framework, and any policies, procedures, or other documents created to support those processes, support the Clearing Agencies' compliance with the requirements of Rule 17Ad-22(e)(4)(i)<sup>7</sup> and, with respect to the CCPs, Rule 17Ad-22(e)(6)(iv)<sup>8</sup> under the Act.

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<sup>5</sup> See Securities Exchange Act Release No. 82006 (November 2, 2017), 82 FR 51892 (November 8, 2017) (SR-DTC-2017-016; SR-NSCC-2017-016; SR-FICC-2017-020).

<sup>6</sup> The parent company of the Clearing Agencies is The Depository Trust & Clearing Corporation ("DTCC"). DTCC operates on a shared services model with respect to the Clearing Agencies. Most corporate functions are established and managed on an enterprise-wide basis pursuant to intercompany agreements under which it is generally DTCC that provides a relevant service to a Clearing Agency.

<sup>7</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>8</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

(ii) Proposed Rule Change

The Clearing Agencies propose to revise the Framework to improve the accuracy and clarity of the descriptions of the Clearing Agencies' practices concerning securities valuation. Specifically, the Clearing Agencies propose to revise the Framework to:

(i) clarify certain aspects of the Pricing Vendor selection process; (ii) clarify the description of the Clearing Agencies' practices for monitoring and reviewing Pricing Vendor data; (iii) clarify the description of the Clearing Agencies' processes concerning the use of end-of day and intraday CUSIP pricing data; and (iv) make other non-substantive clarifying and clean-up changes to the Framework. Each of these categories of changes are discussed in further detail below.

*Selection of Pricing Vendors*

Pursuant to the Framework, the Clearing Agencies select Pricing Vendors based on a review of their services, which includes a review of their securities coverage, price quality checks, and other due diligence prior to engagement. Once a Pricing Vendor is engaged, the Securities Valuation team assesses the reliability of each Pricing Vendor at least annually.

The Clearing Agencies propose minor modifications to the Framework concerning the Pricing Vendor selection process. The Clearing Agencies propose to revise the Framework to state that Pricing Vendors are selected based on a "service review" as opposed to a "review of their service." The proposed rule change is not intended to reflect a material change to the Pricing Vendor selection process, but rather, would more accurately reflect the scope of any potential review performed for Pricing

Vendors, which may include factors beyond just the specific service provided (e.g., it may include a review of certain attributes of the Pricing Vendor itself).

The Clearing Agencies also propose to revise the Framework to clarify that when reviewing the reliability of a Pricing Vendor, the Clearing Agencies would consider whether the Pricing Vendor actually provides accurate and timely pricing data as opposed to whether the Pricing Vendor is “able to provide” accurate and timely data. The Clearing Agencies believe the proposed rule change would more clearly and accurately reflect the expectation that the Pricing Vendor has actually provided accurate and timely pricing data and thereby further ensure that the Clearing Agencies’ policies and procedures are reasonably designed to use reliable sources of timely price data.

#### *Monitoring and Review of Pricing Vendor Data*

Pursuant to the Framework, the Securities Valuation team monitors and reviews each Pricing Vendor’s pricing at least once each business day. This includes a review of whether any CUSIP’s price has remained unchanged for an extended period of time, whether a CUSIP has been dropped from the Pricing Vendor’s file and whether other circumstances exist that may call into question the reliability of any CUSIP’s price.

The Clearing Agencies propose to make certain non-substantive clarifying and grammatical corrections to the Framework concerning the monitoring of Pricing Vendors. The proposed changes would clarify that the scope of daily monitoring and review includes a determination of whether (i) an “eligible” CUSIP’s price has remained unchanged for an extended period (as opposed to inferring “all CUSIPS” for which a vendor may provide pricing in a given file) and (ii) other “relevant” circumstances exist that “could” call into question the reliability of a CUSIP’s price. These proposed changes



are intended to enhance the clarity and drafting of the Framework and are not intended to result in a material change to the monitoring and review processes.

#### *Processing and Use of Pricing Vendor Data*

The Framework currently provides that the Securities Valuation team assigns each CUSIP a primary source Pricing Vendor and a secondary source Pricing Vendor and that, in the event that the primary Pricing Vendor becomes unavailable, unreliable, or otherwise unusable with respect to a CUSIP, the secondary Pricing Vendor will be designated as the replacement for the primary Pricing Vendor with respect to such CUSIP. The Framework also describes the processing of end-of-day and intraday pricing from Pricing Vendors. Specifically, the Framework provides that each CUSIP's price is date stamped (and in the case of intraday pricing, time-stamped) and identified with its Pricing Vendor source, and in the event that both primary Pricing Vendor and secondary Pricing Vendor become unavailable, unreliable, or otherwise unusable with respect to a CUSIP, the Securities Valuation team assigns such CUSIP its last available price.

#### Pricing Vendor Assignments

The Clearing Agencies propose to revise the Framework to remove the statement that the Securities Valuation team assigns each CUSIP a primary and secondary source Pricing Vendor and remove corresponding references to "Primary Pricing Vendor" and "Secondary Pricing Vendor" throughout the Framework. The Clearing Agencies maintain relationships with more than one Pricing Vendor for the majority of their products; however, this may not be the case in all circumstances. For example, the Clearing Agencies may not maintain multiple Pricing Vendors for products that are cleared based on the pricing of another similar product for which they also maintain

Pricing Vendor relationships. The Clearing Agencies also may not perform intra-day pricing for certain asset classes that are not subject to clearance and netting services. The Clearing Agencies therefore believe the proposed change would more accurately reflect the Clearing Agencies' practices for maintaining Pricing Vendors. The proposed changes would further clarify that the Clearing Agencies may not maintain "primary" and "secondary" vendors for all CUSIPs, and that the Clearing Agencies may use whichever Pricing Vendor proves to be available and reliable for a CUSIP at a given time without relying on such "primary" and "secondary" designations. The proposed changes would also provide additional clarity and flexibility for the Clearing Agencies to maintain more than two Pricing Vendors for a product area/CUSIP or, where appropriate, reduce the number of Pricing Vendor relationships it may maintain for any given product area or CUSIP, as governed by applicable Securities Valuation policies and procedures.

The Clearing Agencies would also revise the Framework to specify that in the event a Pricing Vendor becomes unavailable, unreliable, or otherwise unusable with respect to a CUSIP, back-up pricing would be utilized to provide accurate and timely pricing data with respect to such CUSIP. The proposed change would more accurately reflect that backup pricing may be sourced from an alternative Pricing Vendor, where applicable, or may also be determined, in the absence of an alternative Pricing Vendor, pursuant to the Clearing Agencies' applicable policies and procedures to ensure that timely pricing data is applied.

#### End-of-Day and Intraday Price Processing

The Clearing Agencies also propose to clarify their processes for recording end-of-day and intraday pricing. The Clearing Agencies would revise the Framework to

clarify that, with respect to end-of-day and intraday pricing, if Pricing Vendor data is unavailable, unreliable, or otherwise unusable for a CUSIP, the Securities Valuation team does not “assign” the last available price to the CUSIP, but rather, the last available price is recorded in the Clearing Agencies’ pricing database, which is consumable for applicable stakeholders. The proposed rule change would also further clarify that this process would apply if pricing data were unavailable, unreliable, or otherwise unusable from “all” Pricing Vendors, and not just the primary or secondary Pricing Vendors, for the reasons discussed above. The Clearing Agencies believe the proposed changes concerning end-of-day and intraday price processing would improve the accuracy and clarity of the Framework.

*Other Non-Substantive Clean-Up Changes*

Finally, the Clearing Agencies propose to make several non-substantive changes to the Framework. For example, the Clearing Agencies would revise a statement that the Securities Valuation team values each “applicable” CUSIP to say each “eligible” CUSIP to align this statement more clearly with the scope of the policy (i.e., those securities eligible for clearance and settlement or for each CCPs’ clearing fund). The Clearing Agencies would also revise the definition of “Pricing Vendors” to define them as third-party pricing “suppliers” as opposed to “vendors” to eliminate redundancy in the definition and align with other language used in the Framework concerning their role in supplying prices. Additionally, the Clearing Agencies would make several non-substantive, grammatical, and punctuation-related clean-up changes throughout the Framework (including revisions to a footnote in the policy regarding the possibility that certain CUSIPs might not be priced as expected). The proposed changes are not intended

to change the meaning or purpose of the Framework but rather improve the drafting and clarity of the Framework.

## 2. Statutory Basis

The Clearing Agencies believe that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, the Clearing Agencies believe the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act<sup>9</sup> and Rules 17Ad-22(e)(4)(i)<sup>10</sup> and (e)(6)(iv)<sup>11</sup> under the Act, for the reasons set forth below.

Section 17A(b)(3)(F) of the Act<sup>12</sup> requires, in part, that the rules of a 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. The proposed rule change would improve descriptions of the Clearing Agencies' processes for selecting Pricing Vendors, reviewing the reliability of Pricing Vendors, monitoring and reviewing each Pricing Vendor's pricing data, and the processing and use of Pricing Vendor data for securities valuation purposes. The proposed rule change is designed to improve the accuracy and clarity of the Framework document. The Framework and the policies and procedures that support the Framework help assure that each Clearing Agency is using reliable sources of timely price data for collateral valuation, risk management and

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<sup>9</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>10</sup> 17 CFR 240.17Ad-22(e)(4)(i).

<sup>11</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

<sup>12</sup> 15 U.S.C. 78q-1(b)(3)(F).

settlement purposes. Since margin and collateral play key roles in the applicable Clearing Agency's risk management process, having accurate margin system and collateral valuation facilitates the Clearing Agencies' ability to continue the prompt and accurate clearance and settlement of securities transactions and assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible. The Clearing Agencies therefore believe that enhancing the quality and accuracy of the Framework is consistent with the requirements of Section 17A(b)(3)(F) of the Act.

Rule 17Ad-22(e)(4)(i)<sup>13</sup> under the Act requires that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. The Framework describes how the Clearing Agencies identify, measure, monitor, and manage the risks related to the pricing of securities processed or otherwise held by the Clearing Agencies. The processes, systems, and controls used by the Clearing Agencies to identify, measure, monitor, and manage such risks, as described in the Framework, and the policies and procedures that support these activities, help assure that each Clearing Agency is using (i) reliable sources of timely price data when pricing securities processed or otherwise held by the applicable Clearing Agency and (ii) procedures and sound valuation models when pricing data are not readily available or reliable. The proposed rule change would enhance the

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<sup>13</sup> 17 CFR 240.17Ad-22(e)(4)(i).

Framework by providing additional clarity and accuracy concerning the Clearing Agencies' securities valuation practices, and specifically, its processes for selecting Pricing Vendors, reviewing the reliability of Pricing Vendors, monitoring and reviewing each Pricing Vendor's pricing data, and the processing and use of Pricing Vendor data. By appropriately pricing securities, the Clearing Agencies can more accurately calculate the value of the securities that the Clearing Agencies monitor or hold for risk management purposes. The proposed changes are therefore intended to facilitate the maintenance of policies and procedures that are reasonably designed to effectively identify, measure, monitor and manage the Clearing Agencies' credit exposures to participants and those arising from its payment, clearing, and settlement processes and determine the amount of financial resources required to cover its credit exposure to each participant with a high degree of confidence in accordance with the requirements of Rule 17Ad-22(e)(4)(i).

Rule 17Ad-22(e)(6)(iv)<sup>14</sup> under the Act requires each covered clearing agency that is a CCP to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses reliable sources of timely price data and uses procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable. The Framework describes how the CCPs identify, measure, monitor, and manage the risks related to the pricing of securities processed or otherwise held by the CCPs. As noted above, the proposed rule change would enhance the Framework by providing additional clarity and

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<sup>14</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

accuracy concerning the Clearing Agencies' securities valuation practices, and specifically, its processes for selecting Pricing Vendors, reviewing the reliability of Pricing Vendors, monitoring and reviewing each Pricing Vendor's pricing data, and the processing and use of Pricing Vendor data. The processes, systems, and controls used by the CCPs to identify, measure, monitor, and manage such risks, as described in the Framework, and the policies and procedures that support these activities, help assure that each CCP is using reliable sources of timely price data as well as procedures and sound valuation models when pricing data are not readily available or reliable. The Clearing Agencies therefore believe the proposed changes to the Framework are consistent with the requirements of Rule 17Ad-22(e)(6)(iv).

(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. The proposed changes would enhance the Framework by providing additional clarity and accuracy concerning the Clearing Agencies' securities valuation processes. The Framework itself, and the proposed rule changes described herein, would not advantage or disadvantage any particular participant or user of the Clearing Agencies' services or unfairly inhibit access to the Clearing Agencies' services. The Clearing Agencies therefore do not believe that the proposed rule change would have any impact, or impose any burden, on competition.

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

The Clearing Agencies have not received or solicited any written comments relating to this proposal. If any written comments are received, they will be publicly filed

as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit-comments>. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at [tradingandmarkets@sec.gov](mailto:tradingandmarkets@sec.gov) or 202-551-5777.

The Clearing Agencies reserve the right not to respond to any comments received.

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 Act<sup>15</sup> and Rule 19b-4(f)(6) thereunder.<sup>16</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### IV. Solicitation of Comments

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

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-DTC-2023-003 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-DTC-2023-003. This file number should be included on the subject line if e-mail is used. To help the Commission process

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

<sup>16</sup> 17 CFR 240.19b-4(f)(6).

and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of 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-2023-003 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

Secretary

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

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