

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of \* 34

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

File No. \* SR 2023 - \* 001

Amendment No. (req. for Amendments \*)

Filing by Fixed Income Clearing Corporation

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

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

<input type="checkbox"/> 19b-4(f)(1)	<input checked="" type="checkbox"/> 19b-4(f)(4)
<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)
<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

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 \*).

Amend the Clearing Agency Risk Management Framework

### Contact Information

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

First Name \* [Redacted] Last Name \* [Redacted]

Title \* [Redacted]

E-mail \* RuleFilingAdmin@dtcc.com

Telephone \* [Redacted] Fax [Redacted]

### Signature

Pursuant to the requirements of the Securities Exchange of 1934, Fixed Income Clearing Corporation has duty caused this filing to be signed on its behalf by the undersigned thereunto duty authorized.

Date 01/30/2023

(Title \*)

By [Redacted]

[Redacted]

(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: 2023.01.30  
11:21:55 -05'00'

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 \***

Add Remove View

Narrative FICC - Clearing Agency Risk

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 \***

Add Remove View

Exhibit 1A FICC - Clearing Agency Risk

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 \***

Add Remove View

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**

Add Remove View

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**

Add Remove View

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**

Add Remove View

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**

Add Remove View

Exhibit 5 FICC (Redacted) - Clearing Agency Risk

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) The proposed rule change of Fixed Income Clearing Corporation (“FICC”) is provided hereto as Exhibit 5 and amends the Clearing Agency Risk Management Framework (“Risk Management Framework”, or “Framework”) of FICC and its affiliates, The Depository Trust Company (“DTC”) and National Securities Clearing Corporation (“NSCC,” and together with FICC, the “CCPs” and the CCPs together with DTC, the “Clearing Agencies”).<sup>1</sup> Specifically, the proposed rule change would amend the Risk Management Framework to (1) update the description of the dashboards used by the Clearing Agencies as internal performance management tools to measure the effectiveness of their various operations; and (2) clarify and revise the descriptions of certain matters within the Framework and correct errors in those descriptions, as further described below. The proposed changes would update and clarify the Risk Management Framework but do not reflect changes to how the Clearing Agencies comply with the applicable requirements of Rule 17Ad-22(e), as further described below.<sup>2</sup>

(b) Not applicable.

(c) Not applicable.

## 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Risk Committee of the Board of Directors of FICC at a meeting duly called and held on September 20, 2022.

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

### (a) Purpose

The Clearing Agencies adopted the Risk Management Framework<sup>3</sup> to provide an outline for how each of the Clearing Agencies (i) maintains a well-founded, clear, transparent and enforceable legal basis for each aspect of its activities; (ii) comprehensively manages legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by it; (iii) identifies, monitors, and manages risks related to links it establishes with

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<sup>1</sup> See Securities Exchange Act Release Nos. 81635 (September 15, 2017), 82 FR 44224 (September 21, 2017) (File Nos. SR-DTC-2017-013; SR-FICC-2017-016; SR-NSCC-2017-012) (“Initial Filing”) and Securities Exchange Act Release No. 89271 (July 09, 2020), 85 FR 42933 (July 15, 2020) (File No. SR-NSCC-2020-012); Securities Exchange Act Release No. 89269 (July 09, 2020), 85 FR 42954 (July 15, 2020) (File No. SR-DTC-2020-009); and Securities Exchange Act Release No. 89270 (July 09, 2020), 85 FR 42927 (July 15, 2020) (File No. SR-FICC-2020-007) (together with the Initial Filing, the “Framework Filings”)

<sup>2</sup> 17 CFR 240.17Ad-22(e).

<sup>3</sup> Supra note 1.

one or more clearing agencies, financial market utilities, or trading markets; (iv) meets the requirements of its participants and the markets it serves efficiently and effectively; (v) uses, or at a minimum accommodates, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing and settlement; and (vi) publicly discloses certain information, including market data. In this way, the Risk Management Framework currently supports the Clearing Agencies' compliance with Rules 17Ad-22(e)(1), (3), (20), (21), (22) and (23) of the Standards,<sup>4</sup> as described in the Framework Filings. In addition to setting forth the manner in which each of the Clearing Agencies addresses these requirements, the Risk Management Framework also contains a section titled "Framework Ownership and Change Management" that, among other matters, describes the Framework ownership and the required governance process for review and approval of changes to the Framework. In connection with the annual review and approval of the Framework by the Board of Directors of each of NSCC, DTC and FICC (each a "Board" and collectively, the "Boards"), the Clearing Agencies are proposing to make certain revisions to the Framework.

First, the proposed changes would update the Risk Management Framework to reflect a change to the dashboards used by the Clearing Agencies as internal performance management tools to measure the effectiveness of various aspects of their operations, as described in greater detail below.

The proposed changes would also clarify and enhance the descriptions in the Risk Management Framework and correct errors in those descriptions by, for example, (1) enhancing the description of the Clearing Agencies processes for management of certain risks through risk tolerance statements; (2) clarifying the description of the "Three Lines of Defense," including but not limited to updating the descriptions of the "first line of defense," the "second line of defense," and the "third line of defense," (3) clarifying the definition of Rules; (4) enhancing the description of the purpose and approval process of "Risk Management Frameworks;" (5) updating the name of the Operational Risk Management group and the Third Party Risk function.

Finally, the proposed changes would capitalize terms that mistakenly were not previously capitalized but refer to a specific term, remove an unnecessary citation and make certain grammatical changes.

*i. Proposed Amendments to Update the Description of Performance Measurement Tools*

The proposed changes would update the Risk Management Framework to reflect a recent change to the dashboards that are used by the Clearing Agencies as internal performance management tools and address their compliance with the requirements of Rule 17Ad-22(e)(21).<sup>5</sup> Section 4.3 of the Framework identifies certain processes implemented by the Clearing Agencies to be efficient and effective in meeting the requirements of their respective participants and the

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<sup>4</sup> 17 CFR 240.17Ad-22(e)(1), (3), (20), (21), (22) and (23).

<sup>5</sup> 17 CFR 240.17Ad-22(e)(21).

markets they serve.<sup>6</sup> This list of processes is not meant to be exhaustive, and the Clearing Agencies may use other methods to achieve their goals and meet their regulatory requirements. The proposed change would update the Framework to remove reference to a process that was previously used by the Clearing Agencies to monitor their performance and the review standards for such processes.

The Clearing Agencies previously used the DTCC Core Balanced Scoreboard (“BBS”) to provide insight into the effectiveness of their various operations in meeting the needs of their participants and the markets they serve. The Clearing Agencies have eliminated the BBS and now utilize multiple other dashboards to measure the outcomes that were previously measured by the BBS. The elimination of the BBS is not a material change in how the Clearing Agencies approach risk management, as they are simply using other methods to continue to comply with the requirements of Rule 17Ad-22(e)(21).<sup>7</sup> The use of multiple dashboards allows for a more holistic view of the performance of the Clearing Agencies and their subsidiaries. The proposed change would also enhance the descriptions of these processes by describing the annual review of this process and how results are tracked.

*ii. Proposed Amendment to Clarify, Enhance, and Correct Descriptions in the Framework*

The proposed changes would improve the clarity and comprehensiveness of the descriptions of certain matters within the Risk Management Framework and correct grammatical errors in certain descriptions. Some specific examples of such proposed changes include:

1. Proposed Change to Describe the Clearing Agencies’ Assessment and Review of Risk Tolerance Statements

Section 3 of the Framework describes management’s responsibility to establish risk tolerance statements for the range of risks that arise in or are borne by the Clearing Agencies. Section 3 also outlines the review and approval process for such risk tolerance statements and the Clearing Agencies’ performance relative to those statements. The proposed change would clarify that the Clearing Agencies’ performance relative to those risk tolerance statements is assessed quarterly and is shared with senior management and the Board Risk Committees of the Clearing Agencies.

2. Proposed Changes to Clarify the Description of the “Three Lines of Defense”

Section 3.1 of the Framework describes the “three lines of defense” approach adopted by each of the Clearing Agencies for identifying, assessing, measuring, monitoring, mitigating, and reporting the risks that arise in or are borne by it. A proposed change would remove the last sentence of this Section, which states, “While the Framework provides a general description of the Three Lines of Defense approach for risk management, the Three Lines of Defense approach may be used by the Clearing Agencies for managing specific risks, for example operational risk, which is addressed in the Operational Risk Management Framework (see Section 3 below)”

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<sup>6</sup> Id.

<sup>7</sup> Supra note 5.

This sentence is unnecessarily duplicative of the statements in Section 3.3.3 of the Framework which provides details of the various frameworks, separate and apart from this Framework, used by the Clearing Agencies to manage specific risks and, therefore, may cause confusion to a reader. The deletion of the sentence would resolve any such possible confusion, thereby clarifying the entirety of Section 3. The Clearing Agencies are also proposing a change to enhance the examples provided in Section 3.1.1 to illustrate the Clearing Agency Business/Support Areas role as the first line of defense in managing risk by adding two additional examples: a) “Defining and monitoring business risk metrics applicable to their function;” and b) “Clearly understanding and reporting the residual, unmitigated risk that is acceptable to their function.” Additionally, a proposed change to Section 3.1.3 would update the description of the responsibilities of internal audit to be in line with the internal audit charter.

### 3. Proposed Change to Clarify the Definition of “Rules”

Section 3.3.2 of the Framework includes a defined term for the “Rules” of the Clearing Agencies. The proposed change would clarify that the “Rules” referred to for purposes of this Framework are filed with the Securities and Exchange Commission “Commission”). Therefore, the proposed change would update the definition of Rules for clarification purposes and would not substantively change the definition.

### 4. Enhance the Description of the Purpose and Approval Process of “Risk Management Frameworks”

Section 3.3.3 describes the system of frameworks, maintained by the Clearing Agencies, separate and apart from this Framework to manage a range of risks. This Section outlines in greater detail certain of these risk management frameworks and their purpose. The proposed changes to this Section 3.3.3 would enhance the description of one of these frameworks; clarify that such frameworks are in support of this Framework; and clarify that such frameworks may be approved by an applicable Board committee as delegated by the Boards, pursuant to the Document Standards described in this Framework.

### 5. Stating a Change to the Name of the Vendor Risk Management Group and to the Third-Party Risk function Group

The Framework describes the role of the Operational Risk Management Group as the group that manages incidents, and the Third-Party Management Function manages third party risks to the Clearing Agencies. The proposed change would update the Framework to reflect a change in the name of these two groups. The Operational Risk Management Group is now referred to as Operational and Technology Risk and the Third-Party Risk Management group is now referred to as Third Party Risk. This proposed change would reflect a recent organizational name change.

### 6. Proposed Changes to Capitalize Defined Terms and Correct Grammatical and Formatting Errors, Removal of Citation

These proposed changes would fix grammatical errors and capitalize terms that should be defined terms in the Framework or removes inconsistent wording. Some of these changes include: (i) make IOSCO a defined term in footnote 2 for clarification purposes; (ii) change the

word “settlement” to “settling” in Section 4.2 for consistency; (3) remove the words “and Liquidity Providers” from the heading “*Risks Related to Investment Counterparties and Liquidity Providers*” in Section 4.2.1 as the paragraph does not discuss liquidity providers and (4) deletion of footnote 21 as unnecessary.

The proposed rule change would make additional immaterial edits to the Framework that do not alter how the Clearing Agencies comply with the applicable requirements of Rule 17Ad-22(e).

(b) Statutory Basis

The Clearing Agencies believe that the proposed changes are consistent with Section 17A(b)(3)(F) of the Securities Exchange Act of 1934 (“Act”)<sup>8</sup> for the reasons described below. Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a registered clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.<sup>9</sup> The proposed changes would (1) update the Risk Management Framework to remove reference to the BBS and include a description of the governance around the dashboards used by the Clearing Agencies to measure the effectiveness of their operations, and (2) clarify the descriptions of certain matters within the Framework to improve comprehensiveness and correct errors, as described above. By creating clearer, updated descriptions and correcting errors, the Clearing Agencies believe that the proposed changes would make the Risk Management Framework more effective in providing an overview of the important risk management activities of the Clearing Agencies, as described therein.

As described in the Framework Filings, the risk management functions described in the Risk Management Framework allow the Clearing Agencies to continue to promote the prompt and accurate clearance and settlement of securities transactions and continue to assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible notwithstanding the default of a member of an affiliated family. The proposed changes to improve the clarity and accuracy of the descriptions of risk management functions within the Framework would assist the Clearing Agencies in carrying out these risk management functions. Therefore, the Clearing Agencies believe these proposed changes are consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>10</sup>

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

The Clearing Agencies do not believe that the proposed changes to the Framework described above would have any impact, or impose any burden, on competition. As described above, the proposed rule change would improve the comprehensiveness of the Framework by creating clearer, updated descriptions and correcting errors, thereby making the Risk Management Framework more effective in providing an overview of the important risk

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<sup>8</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>9</sup> Id.

<sup>10</sup> Id.

management activities of the Clearing Agencies. As such, the Clearing Agencies do not believe that the proposed rule change would have any impact on competition.

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

FICC has 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-submitcomments>. 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.

FICC reserves 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>11</sup> and subparagraph 19b-4(f)(4) thereunder.<sup>12</sup>

(b) The proposed rule change effects a change in an existing service of a registered clearing agency that (i) does not adversely affect the safeguarding of securities or funds in the custody or control of the clearing agency or for which it is responsible and (ii) does not significantly affect the respective rights or obligations of the clearing agency or persons using the service. As noted above, the proposed changes are mostly technical and non-material in nature. Therefore, the proposed rule change would not adversely affect the safeguarding of securities or funds in the custody or control of the clearing agency or for which it is responsible and would

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

<sup>12</sup> 17 CFR 240.19b-4(f)(4).

not significantly affect the rights or obligations of the clearing agency or its participants consistent with Rule 19b-4(f)(4)(i).<sup>13</sup>

(c) Not applicable.

(d) Not applicable.

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

While the proposed rule change is not based on the rules of another self-regulatory organization or of the Commission, the Framework is applicable to each of the Clearing Agencies, and each of the Clearing Agencies has filed similar proposed rule changes concurrently with this filing.

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

Not applicable.

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

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

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-FICC-2023-001)

[DATE]

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on January \_\_, 2023, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. FICC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(4) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change amends the Clearing Agency Risk Management Framework (“Risk Management Framework”, or “Framework”) of FICC and its affiliates, The Depository Trust Company (“DTC”) and National Securities Clearing Corporation (“NSCC,” and together with FICC, the “CCPs” and the CCPs together with

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

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

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

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

DTC, the “Clearing Agencies”).<sup>5</sup> Specifically, the proposed rule change would amend the Risk Management Framework to (1) update the description of the dashboards used by the Clearing Agencies as internal performance management tools to measure the effectiveness of their various operations; and (2) clarify and revise the descriptions of certain matters within the Framework and correct errors in those descriptions, as further described below. The proposed changes would update and clarify the Risk Management Framework but do not reflect changes to how the Clearing Agencies comply with the applicable requirements of Rule 17Ad-22(e), as described in greater detail below.

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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<sup>5</sup> See Securities Exchange Act Release Nos. 81635 (September 15, 2017), 82 FR 44224 (September 21, 2017) (File Nos. SR-DTC-2017-013; SR-FICC-2017-016; SR-NSCC-2017-012) (“Initial Filing”) and Securities Exchange Act Release No. 89271 (July 09, 2020), 85 FR 42933 (July 15, 2020) (File No. SR-NSCC-2020-012); Securities Exchange Act Release No. 89269 (July 09, 2020), 85 FR 42954 (July 15, 2020) (File No. SR-DTC-2020-009); and Securities Exchange Act Release No. 89270 (July 09, 2020), 85 FR 42927 (July 15, 2020) (File No. SR-FICC-2020-007) (together with the Initial Filing, the “Framework Filings”)

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Clearing Agencies adopted the Risk Management Framework<sup>6</sup> to provide an outline for how each of the Clearing Agencies (i) maintains a well-founded, clear, transparent and enforceable legal basis for each aspect of its activities; (ii) comprehensively manages legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by it; (iii) identifies, monitors, and manages risks related to links it establishes with one or more clearing agencies, financial market utilities, or trading markets; (iv) meets the requirements of its participants and the markets it serves efficiently and effectively; (v) uses, or at a minimum accommodates, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing and settlement; and (vi) publicly discloses certain information, including market data. In this way, the Risk Management Framework currently supports the Clearing Agencies' compliance with Rules 17Ad-22(e)(1), (3), (20), (21), (22) and (23) of the Standards,<sup>7</sup> as described in the Framework Filings. In addition to setting forth the manner in which each of the Clearing Agencies addresses these requirements, the Risk Management Framework also contains a section titled "Framework Ownership and Change Management" that, among other matters, describes the Framework ownership and the required governance process for review and approval of changes to the Framework. In connection with the annual review

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<sup>6</sup> Supra note 5.

<sup>7</sup> 17 CFR 240.17Ad-22(e)(1), (3), (20), (21), (22) and (23).

and approval of the Framework by the Board of Directors of each of NSCC, DTC and FICC (each a “Board” and collectively, the “Boards”), the Clearing Agencies are proposing to make certain revisions to the Framework.

First, the proposed changes would update the Risk Management Framework to reflect a change to the dashboards used by the Clearing Agencies as internal performance management tools to measure the effectiveness of various aspects of their operations, as described in greater detail below.

The proposed changes would also clarify and enhance the descriptions in the Risk Management Framework and correct errors in those descriptions by, for example, (1) enhancing the description of the Clearing Agencies processes for management of certain risks through risk tolerance statements; (2) clarifying the description of the “Three Lines of Defense,” including but not limited to updating the descriptions of the “first line of defense,” the “second line of defense,” and the “third line of defense,” (3) clarifying the definition of Rules; (4) enhancing the description of the purpose and approval process of “Risk Management Frameworks;” (5) updating the name of the Operational Risk Management group and the Third Party Risk function.

Finally, the proposed changes would capitalize terms that mistakenly were not previously capitalized but refer to a specific term, remove an unnecessary citation and make certain grammatical changes.

*i. Proposed Amendments to Update the Description of Performance Measurement Tools*

The proposed changes would update the Risk Management Framework to reflect a recent change to the dashboards that are used by the Clearing Agencies as internal performance management tools and address their compliance with the requirements of

Rule 17Ad-22(e)(21).<sup>8</sup> Section 4.3 of the Framework identifies certain processes implemented by the Clearing Agencies to be efficient and effective in meeting the requirements of their respective participants and the markets they serve.<sup>9</sup> This list of processes is not meant to be exhaustive, and the Clearing Agencies may use other methods to achieve their goals and meet their regulatory requirements. The proposed change would update the Framework to remove reference to a process that was previously used by the Clearing Agencies to monitor their performance and the review standards for such processes.

The Clearing Agencies previously used the DTCC Core Balanced Scoreboard (“BBS”) to provide insight into the effectiveness of their various operations in meeting the needs of their participants and the markets they serve. The Clearing Agencies have eliminated the BBS and now utilize multiple other dashboards to measure the outcomes that were previously measured by the BBS. The elimination of the BBS is not a material change in how the Clearing Agencies approach risk management, as they are simply using other methods to continue to comply with the requirements of Rule 17Ad-22(e)(21).<sup>10</sup> The use of multiple dashboards allows for a more holistic view of the performance of the Clearing Agencies and their subsidiaries. The proposed change would also enhance the descriptions of these processes by describing the annual review of this process and how results are tracked.

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<sup>8</sup> 17 CFR 240.17Ad-22(e)(21).

<sup>9</sup> Id.

<sup>10</sup> Supra note 8.

ii. *Proposed Amendment to Clarify, Enhance, and Correct Descriptions in the Framework*

The proposed changes would improve the clarity and comprehensiveness of the descriptions of certain matters within the Risk Management Framework and correct grammatical errors in certain descriptions. Some specific examples of such proposed changes include:

1. Proposed Change to Describe the Clearing Agencies' Assessment and Review of Risk Tolerance Statements

Section 3 of the Framework describes management's responsibility to establish risk tolerance statements for the range of risks that arise in or are borne by the Clearing Agencies. Section 3 also outlines the review and approval process for such risk tolerance statements and the Clearing Agencies' performance relative to those statements. The proposed change would clarify that the Clearing Agencies' performance relative to those risk tolerance statements is assessed quarterly and is shared with senior management and the Board Risk Committees of the Clearing Agencies.

2. Proposed Changes to Clarify the Description of the "Three Lines of Defense"

Section 3.1 of the Framework describes the "three lines of defense" approach adopted by each of the Clearing Agencies for identifying, assessing, measuring, monitoring, mitigating, and reporting the risks that arise in or are borne by it. A proposed change would remove the last sentence of this Section, which states, "While the Framework provides a general description of the Three Lines of Defense approach for risk management, the Three Lines of Defense approach may be used by the Clearing Agencies for managing specific risks, for example operational risk, which is addressed in the Operational Risk Management Framework (see Section 3 below)" This sentence is

unnecessarily duplicative of the statements in Section 3.3.3 of the Framework which provides details of the various frameworks, separate and apart from this Framework, used by the Clearing Agencies to manage specific risks and, therefore, may cause confusion to a reader. The deletion of the sentence would resolve any such possible confusion, thereby clarifying the entirety of Section 3. The Clearing Agencies are also proposing a change to enhance the examples provided in Section 3.1.1 to illustrate the Clearing Agency Business/Support Areas role as the first line of defense in managing risk by adding two additional examples: a) “Defining and monitoring business risk metrics applicable to their function;” and b) “Clearly understanding and reporting the residual, unmitigated risk that is acceptable to their function.” Additionally, a proposed change to Section 3.1.3 would update the description of the responsibilities of internal audit to be in line with the internal audit charter.

3. Proposed Change to Clarify the Definition of “Rules”

Section 3.3.2 of the Framework includes a defined term for the “Rules” of the Clearing Agencies. The proposed change would clarify that the “Rules” referred to for purposes of this Framework are filed with the Commission. Therefore, the proposed change would update the definition of Rules for clarification purposes and would not substantively change the definition.

4. Enhance the Description of the Purpose and Approval Process of “Risk Management Frameworks”

Section 3.3.3 describes the system of frameworks, maintained by the Clearing Agencies, separate and apart from this Framework to manage a range of risks. This Section outlines in greater detail certain of these risk management frameworks and their purpose. The proposed changes to this Section 3.3.3 would enhance the description of

one of these frameworks; clarify that such frameworks are in support of this Framework; and clarify that such frameworks may be approved by an applicable Board committee as delegated by the Boards, pursuant to the Document Standards described in this Framework.

5. Stating a Change to the Name of the Vendor Risk Management Group and to the Third-Party Risk function Group

The Framework describes the role of the Operational Risk Management Group as the group that manages incidents, and the Third-Party Management Function manages third party risks to the Clearing Agencies. The proposed change would update the Framework to reflect a change in the name of these two groups. The Operational Risk Management Group is now referred to as Operational and Technology Risk and the Third-Party Risk Management group is now referred to as Third Party Risk. This proposed change would reflect a recent organizational name change.

6. Proposed Changes to Capitalize Defined Terms and Correct Grammatical and Formatting Errors, Removal of Citation

These proposed changes would fix grammatical errors and capitalize terms that should be defined terms in the Framework or removes inconsistent wording. Some of these changes include: (i) make IOSCO a defined term in footnote 2 for clarification purposes; (ii) change the word “settlement” to “settling” in Section 4.2 for consistency; (3) remove the words “and Liquidity Providers” from the heading “*Risks Related to Investment Counterparties and Liquidity Providers*” in Section 4.2.1 as the paragraph does not discuss liquidity providers and (4) deletion of footnote 21 as unnecessary.

The proposed rule change would make additional immaterial edits to the Framework that do not alter how the Clearing Agencies comply with the applicable requirements of Rule 17Ad-22(e).

2. Statutory Basis

The Clearing Agencies believe that the proposed changes are consistent with Section 17A(b)(3)(F) of the Act<sup>11</sup> for the reasons described below. Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a registered clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.<sup>12</sup> The proposed changes would (1) update the Risk Management Framework to remove reference to the BBS and include a description of the governance around the dashboards used by the Clearing Agencies to measure the effectiveness of their operations, and (2) clarify the descriptions of certain matters within the Framework to improve comprehensiveness and correct errors, as described above. By creating clearer, updated descriptions and correcting errors, the Clearing Agencies believe that the proposed changes would make the Risk Management Framework more effective in providing an overview of the important risk management activities of the Clearing Agencies, as described therein.

As described in the Framework Filings, the risk management functions described in the Risk Management Framework allow the Clearing Agencies to continue to promote the prompt and accurate clearance and settlement of securities transactions and continue

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<sup>11</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>12</sup> Id.

to assure the safeguarding of securities and funds which are in their custody or control or for which they are responsible notwithstanding the default of a member of an affiliated family. The proposed changes to improve the clarity and accuracy of the descriptions of risk management functions within the Framework would assist the Clearing Agencies in carrying out these risk management functions. Therefore, the Clearing Agencies believe these proposed changes are consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>13</sup>

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

The Clearing Agencies do not believe that the proposed changes to the Framework described above would have any impact, or impose any burden, on competition. As described above, the proposed rule change would improve the comprehensiveness of the Framework by creating clearer, updated descriptions and correcting errors, thereby making the Risk Management Framework more effective in providing an overview of the important risk management activities of the Clearing Agencies. As such, the Clearing Agencies do not believe that the proposed rule change would have any impact on competition.

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

FICC has 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.

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<sup>13</sup> Id.

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-submitcomments>. 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.

FICC reserves the right not to respond to any comments received.

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)<sup>14</sup> of the Act and paragraph (f)<sup>15</sup> 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.

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<sup>14</sup> 15 U.S.C. 78s(b)(3)(A).

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

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2023-001 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-FICC-2023-001. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for

website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2023-001 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>16</sup>

Secretary

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<sup>16</sup> 17 CFR 200.30-3(a)(12).

text indicates proposed additions.

text indicates proposed deletions.

## Clearing Agency Risk Management Framework

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