

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-102940; File No. SR-NSCC-2025-006]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Update the Clearing Agency Securities Valuation Framework to Include Use of Substantive Inputs

April 28, 2025.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 15, 2025, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared primarily by the clearing agency. 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 updates the Clearing Agency Securities Valuation Framework (“Framework”) of NSCC and its affiliates, Fixed Income Clearing Corporation (“FICC,” and together with NSCC, the central counterparties or “CCPs”) and The Depository Trust Company (“DTC,” and together with the CCPs, the “Clearing Agencies”) in order to address recently adopted amendments to the Commission’s Standards for Covered Clearing Agencies (“CCAS Rules”) concerning the use of

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

substantive inputs in covered clearing agency (“CCA”) risk-based margin systems. The proposed changes to the Framework would apply to DTC, NSCC, and both of FICC’s divisions, the Government Securities Division (“GSD”) and the Mortgage-Backed Securities Division (“MBSD”).³

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

Executive Summary of Proposed Changes

On October 25, 2024, the Commission adopted amendments to the CCAS Rules to add new requirements for CCAs relying upon substantive inputs to their risk-based margin models, including when such substantive inputs are not readily available or

³ Capitalized terms not defined herein shall have the meaning assigned to such terms in the DTC Rules, By-Laws and Organization Certificate, FICC GSD Rulebook, FICC MBSD Clearing Rules, and NSCC Rules & Procedures, available at www.dtcc.com/legal/rules-and-procedures.

reliable.⁴ Rule 17ad-22(e)(6)(iv)⁵ previously set forth requirements for CCAs to maintain policies and procedures concerning the use of reliable sources of timely price data and procedures for addressing circumstances in which price data are not readily available or reliable. The Commission recently amended Rule 17ad-22(e)(6)(iv) to expand the scope of this rule beyond price data to also include other substantive inputs to a CCA’s risk-based margin system.⁶ Specifically, the CCAS Margin Rules would require that CCAs maintain policies and procedures that are reasonably designed to (i) use reliable sources of timely price data and other substantive inputs and (ii) address circumstances in which price data and other substantive inputs are not readily available or reliable, to ensure that the CCA can continue to meet its obligations under Rule 17ad-22(e)(6) under the Act.⁷ Such policies and procedures must include either (i) the use of price data or substantive inputs from an alternate source; or (ii) if it does not use an alternate source, the use of a risk-based margin system that does not rely on substantive inputs that are unavailable or unreliable. As described below, the proposed changes to the Framework are primarily designed to facilitate compliance with these requirements.

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

⁴ Securities Exchange Act Release No. 101446 (Oct. 25, 2024), 89 FR 91000 (Nov. 18, 2024) (File No. S7-10-23) (“Adopting Release,” and the substantive input rules adopted therein referred to herein as “CCAS Margin Rules”).

⁵ 17 CFR 240.17ad-22(e)(6)(iv).

⁶ See Adopting Release, *supra* note 4 at 91011.

⁷ 17 CFR 240.17ad-22(e)(6)(iv).

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.⁸ 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 currently 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.⁹ 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)¹⁰ and, with respect to the CCPs, Rule 17ad-22(e)(6)(iv)¹¹ under the Act.

Proposed Changes to the Framework

The Clearing Agencies propose to revise the Framework to address the newly adopted CCAS Margin Rules and make other clarifying, organizational and cleanup changes. Specifically, the Clearing Agencies would (i) add a new section on other margin

⁸ See Securities Exchange Act Release Nos. 82006 (Nov. 2, 2017), 82 FR 51892 (Nov. 8, 2017) (SR-DTC-2017-016, SR-NSCC-2017-016, SR-FICC-2017-020); 97280 (Apr. 11, 2023), 88 FR 23482 (Apr. 17, 2023) (SR-NSCC-2023-003); 97283 (Apr. 11, 2023), 88 FR 23478 (Apr. 17, 2023) (SR-FICC-2023-004); and 97284 (Apr. 11, 2023), 88 FR 23474 (Apr. 17, 2023) (SR-DTC-2023-003).

⁹ 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.

¹⁰ 17 CFR 240.17ad-22(e)(4)(i).

¹¹ 17 CFR 240.17ad-22(e)(6)(iv).

input data (aside from price data) to address CCAS Margin Rules related to substantive inputs to CCA margin systems; (ii) add a new glossary of key terms to the Framework; (iii) make clarifying changes to the securities valuation section of the Framework; and (iv) make other clarifying and conforming changes throughout the Framework.

Margin Input Data (Including Substantive Inputs)

The primary purpose of the proposed rule change is to add a new section to the Framework to address new CCAS Margin Rules concerning the substantive inputs to CCA margin systems. The proposed new section would provide that NSCC and FICC, as CCPs, maintain policies and procedures for (i) evaluating data inputs (other than price data) to their margin systems and methodologies, (ii) determining which data inputs are Substantive Inputs (as defined below), (iii) maintaining an inventory of Substantive Inputs and alternative sources or margin systems/methodologies that do not rely on Substantive Inputs that are unavailable or unreliable, and (iv) addressing circumstances in which Substantive Inputs may not be readily available or reliable.

The proposed new section would describe “Substantive Inputs” as inputs that each CCP determines are “necessary” and “consequential” to the calculation of its respective margin requirements. Specifically, a data input is deemed to be “necessary” if the margin calculation cannot be performed without some form of the data input. A data input is determined to be “consequential” if the unavailability or unreliability of the input would impact margin requirements such that the CCP is not adequately able to cover the risk intended to be addressed by the respective margin model, component or charge. The proposed new section would provide examples of Substantive Inputs that include, but are not limited to, inputs such as (i) market data, (ii) reference data, and (iii) sensitivity data.

The proposed new section would also specify the relevant team(s) within DTCC that would review each CCP's margin inputs to determine whether they are Substantive Inputs. Based on these determinations, an inventory of Substantive Inputs for each CCP would be maintained and reviewed on at least an annual basis.

In addition, the proposed new section would specify the relevant team(s) within DTCC that would define and implement data quality rules to regularly monitor the ongoing availability and reliability of each Substantive Input. If a Substantive Input is unavailable or unreliable, the designated team(s) would escalate the issue to relevant stakeholders in accordance with their procedures. The designated team(s) would also facilitate an internal annual review of the inventory of data quality rules in accordance with its procedures.

Furthermore, the designated team(s) would maintain procedures for addressing circumstances in which their respective Substantive Inputs are not readily available or reliable. Such procedures would include (i) the use of Substantive Inputs from an alternative source or (ii) the use of a risk-based margin system that does not rely on the Substantive Inputs that are unavailable or unreliable. The proposed new section would provide that an alternate source for a Substantive Input generally should meet the same level of reliability as the primary source, is not required to be sourced externally, and may be created internally. In addition, the new section would provide that an alternate source may be the result of internal policies and procedures that establish a methodology or approach to determining an appropriate input that meets the needs of the CCP's margin methodology and maintains compliance with the overall requirements of Rule 17ad-

22(e)(6).¹² Lastly, the new section would provide that any alternate risk-based margin system is subject to the requirements of Rule 17ad-22(e)(6)(vi) and (vii)¹³ under the Act with respect to monitoring, review, testing, verification, and model validation.

Glossary of Key Terms

In order to enhance the transparency of the Framework, the Clearing Agencies propose to add a new section to include a glossary of key terms used in the Framework as well as their definitions. The Clearing Agencies believe the new glossary would help improve clarity of the Framework by providing a concise and easy-to-use reference tool for users of the Framework.

Clarifying Changes Regarding Securities Valuation

The Clearing Agencies propose changes to clarify and further streamline the description of the Clearing Agencies' practices concerning the price data 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. Specifically, the Clearing Agencies propose to include clarifying language that provides each Clearing Agency uses reliable sources of timely price data and has policies and procedures to address circumstances in which price data are not readily available or reliable in support of the Framework. As proposed, such procedures would include the use of price data from an alternate source or an alternative valuation model/methodology.

¹² 17 CFR 240.17ad-22(e)(6).

¹³ 17 CFR 240.17ad-22(e)(6)(vi) and (vii).

Other Conforming and Clarifying Changes

The Clearing Agencies propose other conforming and clarifying changes. These other conforming and clarifying changes include renaming the Framework as the Clearing Agency Price and Margin Input Data Framework to reflect that, as proposed, the Framework would set forth the manner in which each of the Clearing Agencies identifies, measures, monitors, and manage the risks related to both price and margin input data. These changes also include updates to the description of applicable regulatory requirements to align with the new CCAS Margin Rules concerning the use of substantive inputs in a CCA's risk-based margin systems. Furthermore, the Clearing Agencies propose changes to align terminologies used throughout the Framework with those defined in the new glossary of key terms.

Implementation Timeframe

The Clearing Agencies expect to implement the proposed rule change by no later than December 15, 2025, and would announce the effective date of the proposed changes by an Important Notice posted to the DTCC website.

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 Act¹⁴ and Rules 17ad-22(e)(4)(i), (e)(6)(i), and (e)(6)(iv)¹⁵ under the Act for the reasons set forth below.

¹⁴ 15 U.S.C. 78q-1(b)(3)(F).

¹⁵ 17 CFR 240.17ad-22(e)(4)(i), (e)(6)(i), and (e)(6)(iv).

Section 17A(b)(3)(F) of the Act¹⁶ 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 amend the Framework to describe how the Clearing Agencies maintain policies and procedures that are reasonably designed to (i) use reliable sources of timely price data and other substantive inputs and (ii) address circumstances in which price data and other substantive inputs are not readily available or reliable. 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 and other substantive inputs, as applicable, for determining margin requirements and collateral valuation for risk management and settlement purposes. Since margin and collateral play key roles in the applicable Clearing Agency's risk management process, having accurate margin requirements and collateral valuation facilitate 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, in accordance with Section 17A(b)(3)(F) of the Act.

The proposed rule change has also been designed to be consistent with Rules 17ad-22(e)(4)(i), (e)(6)(i) and (e)(6)(iv) under the Act.¹⁷ Rule 17ad-22(e)(4)(i) under the Act¹⁸ requires a CCA to establish, implement, maintain, and enforce written policies and

¹⁶ 15 U.S.C. 78q-1(b)(3)(F).

¹⁷ 17 CFR 240.17ad-22(e)(4)(i), (e)(6)(i) and (e)(6)(iv).

¹⁸ 17 CFR 240.17ad-22(e)(4)(i).

procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those exposures 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 proposed rule change would amend the Framework to describe how the Clearing Agencies maintain policies and procedures that are reasonably designed to (i) use reliable sources of timely price data and other substantive inputs and (ii) address circumstances in which price data and other substantive inputs are not readily available or reliable. 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 and other substantive inputs, as applicable, for determining margin requirements and collateral valuation for risk management and settlement purposes. Since margin and collateral play key roles in the applicable Clearing Agency's risk management process, having accurate margin requirements and collateral valuation would enable it to better identify, measure, monitor, and manage its credit exposures to participants by maintaining sufficient resources to cover those credit exposures fully with a high degree of confidence. As a result, the Clearing Agencies believe that the proposed rule change would enhance the applicable Clearing Agency's ability to effectively identify, measure, and monitor its credit exposures and would enhance its ability to maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence, consistent with the requirements of Rule 17ad-22(e)(4)(i) under the Act.¹⁹

¹⁹ Id.

Rule 17ad-22(e)(6)(i) under the Act²⁰ requires each CCA 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, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.²¹

The proposed rule change would amend the Framework to describe how the Clearing Agencies maintain policies and procedures that are reasonably designed to (i) use reliable sources of timely price data and other substantive inputs and (ii) address circumstances in which price data and other substantive inputs are not readily available or reliable. 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 and other substantive inputs, as applicable, for determining margin requirements and collateral valuation for risk management and settlement purposes. Since margin and collateral play key roles in the applicable Clearing Agency's risk management process, having accurate margin requirements and collateral valuation would help to ensure that margin levels are commensurate with the risk exposure of each portfolio throughout the day and that the margin that the applicable Clearing Agency collects from participants is sufficient to mitigate the credit exposure presented by the participants. Overall, the proposed change would allow the applicable Clearing Agency to more effectively address the risks presented by participants. In this way, the proposed change would enhance the ability of the applicable Clearing Agency to produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market. As such, the Clearing Agencies believe that the proposed change is consistent with the requirements of

Rule 17ad-22(e)(6)(i) under the Act.²² Rule 17ad-22(e)(6)(iv)²³ under the Act requires each CCA 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 other substantive inputs (and, with respect to price data, sound valuation models) for addressing circumstances in which price data or other substantive inputs are not readily available or reliable, to ensure that the CCA can continue to meet its obligations under Rule 17ad-22(e)(6).²⁴ Such policies and procedures must include either (i) the use of price data or substantive inputs from an alternate source; or (ii) if it does not use an alternate source, the use of a risk-based margin system that does not rely on substantive inputs that are unavailable or unreliable.

As discussed above, the proposed rule change would amend the Framework to describe how the Clearing Agencies maintain policies and procedures that are reasonably designed to (i) use reliable sources of timely price data and other substantive inputs and (ii) address circumstances in which price data and other substantive inputs are not readily available or reliable. This includes the maintenance of procedures detailing (i) the use of price data or substantive inputs from an alternate source or (ii) if the CCP does not use an alternate source, the use of a risk-based margin system that does not rely on substantive

²⁰ 17 CFR 240.17ad-22(e)(6)(i).

²¹ Id.

²² Id.

²³ 17 CFR 240.17ad-22(e)(6)(iv).

²⁴ See 17 CFR 240.17ad-22(e)(6).

inputs that are unavailable or unreliable. The Clearing Agencies believe the proposed changes to the Framework are designed to facilitate the use of timely and reliable substantive inputs to each CCP's margin system, and where such inputs are unavailable or unreliable, the use of appropriate alternative sources or procedures, to ensure that the Clearing Agencies continue to meet their obligations under Rule 17ad-22(e)(6) under the Act.²⁵

For the reasons set forth above, the Clearing Agencies believe the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act²⁶ and Rules 17ad-22(e)(4)(i), (e)(6)(i), and (e)(6)(iv) thereunder.²⁷

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

Section 17A(b)(3)(I) of Act²⁸ requires that the rules of a clearing agency do not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. 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 addressing the new CCAS Margin Rules concerning the use of substantive inputs in a CCA's risk-based margin systems. These changes apply to the CCA's margin systems generally and would not advantage or disadvantage any particular participant or user of the Clearing Agencies' services or unfairly inhibit access

²⁵ See 17 CFR 240.17ad-22(e)(6).

²⁶ 15 U.S.C. 78q-1(b)(3)(F).

²⁷ 17 CFR 240.17ad-22(e)(4)(i), (e)(6)(i), and (e)(6)(iv).

²⁸ 15 U.S.C. 78q-1(b)(3)(I).

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, the Clearing Agencies will amend this filing by publicly filing such comments as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting written 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 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 or 202-551-5777.

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

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds

such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

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
(<https://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include file number SR-NSCC-2025-006 on the subject line.

Paper Comments:

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

All submissions should refer to file number SR-NSCC-2025-006. This file number should be included on the subject line if email 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 (<https://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 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of NSCC and on DTCC's website (<https://www.dtcc.com/legal/sec-rule-filings.aspx>). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-NSCC-2025-006 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁹

Sherry R. Haywood,

Assistant Secretary.

²⁹ 17 CFR 200.30-3(a)(12).