

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-94271; File No. SR-FICC-2022-001)

February 17, 2022

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 11, 2022, 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)(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 Model Risk Management Framework (“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

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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).

Agencies”).<sup>5</sup> The Framework has been adopted by the Clearing Agencies to support their compliance with Rule 17Ad-22(e) (the “Covered Clearing Agency Standards”) under the Act,<sup>6</sup> and, in this regard, applies solely to models<sup>7</sup> utilized by the Clearing Agencies that are subject to the model risk management requirements set forth in Rules 17Ad-22(e)(4),

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<sup>5</sup> The Framework sets forth the model risk management practices that the Clearing Agencies follow to identify, measure, monitor, and manage the risks associated with the design, development, implementation, use, and validation of quantitative models. The Framework is filed as a rule of the Clearing Agencies. See Securities Exchange Act Release Nos. 81485 (August 25, 2017), 82 FR 41433 (August 31, 2017) (File Nos. SR-DTC-2017-008, SR-FICC-2017-014, SR-NSCC-2017-008) (“2017 Notice”); 88911 (May 20, 2020), 85 FR 31828 (May 27, 2020) (File Nos. SR-DTC-2020-008, SR-FICC-2020-004, SR-NSCC-2020-008); and 92379 (July 13, 2021), 86 FR 38143 (July 19, 2021) (File No. SR-DTC-2021-013), 92381 (July 13, 2021), 86 FR 38163 (July 19, 2021) (File No. SR-NSCC-2021-008), and 92380 (July 13, 2021), 86 FR 38140 (July 19, 2021) (File No. SR-FICC-2021-006) (collectively, the “MRMF Filings”).

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

<sup>7</sup> Pursuant to Section 3.1 of the Framework, the Clearing Agencies have adopted the following definition of “model”: “[M]odel” refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. A “model” consists of three components: (i) an information input component, which delivers assumptions and data to the model; (ii) a processing component, which transforms inputs into estimates; and (iii) a reporting component, which translates the estimates into useful business information. The definition of model also covers quantitative approaches whose inputs are partially or wholly qualitative or based on expert judgment, provided that the output is quantitative in nature. See 2017 Notice, supra note 5. See also Supervisory Guidance on Model Risk Management, SR Letter 11-7 Attachment, dated April 4, 2011, issued by the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, available at <https://www.federalreserve.gov/supervisionreg/srletters/sr1107a1.pdf>, page 3.

(e)(6), and (e)(7) under the Act.<sup>8</sup>

The proposed rule change would amend the Framework<sup>9</sup> to (i) harmonize the terminology used in the Framework relating to model validation, with the definition used by the Covered Clearing Agency Standards, by deleting “full” where it appears as a modifier to “model validation” in the Framework; (ii) provide that provisional approvals of models may be extended if approved by the Managing Director of Model Risk Management (“MRM”) and notice thereof is given to the Group Chief Risk Officer; however, in no event shall any provisional approval, together with any extension(s) granted, exceed one year and (iii) make other technical and clarifying changes to the text, as described below.

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

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any

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<sup>8</sup> 17 CFR 240.17Ad-22(e)(4), (e)(6) and (e)(7). References to Rule 17Ad-22(e)(6) and compliance therewith apply to the CCPs only and not to DTC because DTC is not a central counterparty.

<sup>9</sup> Amending the Framework does not require any changes to the Rules, By-Laws and Organization Certificate of DTC (available at [http://www.dtcc.com/~media/Files/Downloads/legal/rules/dtc\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/dtc_rules.pdf)) (the “DTC Rules”), the Rulebook of the Government Securities Division of FICC (available at [https://www.dtcc.com/~media/Files/Downloads/legal/rules/ficc\\_gov\\_rules.pdf](https://www.dtcc.com/~media/Files/Downloads/legal/rules/ficc_gov_rules.pdf)) (the “GSD Rules”), the Clearing Rules of the Mortgage-Backed Securities Division of FICC (available at [http://www.dtcc.com/~media/Files/Downloads/legal/rules/ficc\\_mbsd\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/ficc_mbsd_rules.pdf)) (the “MBSD Rules”), or the Rules & Procedures of NSCC (available at [http://www.dtcc.com/~media/Files/Downloads/legal/rules/nscc\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf)) (the “NSCC Rules,” and collectively with the DTC Rules, GSD Rules, and MBSD Rules, the “Rules”), because the Framework is a standalone document. See MRMF Filings, supra note 5.

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 would amend the Framework to (i) harmonize the terminology used in the Framework relating to model validation, with the definition used by the Covered Clearing Agency Standards, by deleting “full” where it appears as a modifier to “model validation” in the Framework; (ii) provide that provisional approvals of models may be extended if approved by the Managing Director of MRM and notice thereof is given to the Group Chief Risk Officer; however, in no event shall any provisional approval, together with any extension(s) granted, exceed one year and (iii) make other technical and clarifying changes to the text, as described below.

Background

The Covered Clearing Agency Standards require that the Clearing Agencies take steps to manage the models that they employ in identifying, measuring, monitoring, and managing their respective credit exposures and liquidity risks, including that the Clearing Agencies conduct daily backtesting of model performance, periodic sensitivity analyses of models, and annual validation of models.<sup>10</sup> The Framework is maintained by the Clearing Agencies to support their compliance with the requirements of the Covered

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<sup>10</sup> See 17 CFR 240.17Ad-22(e)(4), (e)(6) and (e)(7). References to Rule 17Ad-22(e)(6) and compliance therewith apply to the CCPs only and not to DTC.

Clearing Agency Standards relating to model risk management.

The Framework outlines the applicable regulatory requirements mentioned above, describes the risks that the Clearing Agencies' model risk management program are designed to mitigate, and sets forth specific model risk management practices and requirements adopted by the Clearing Agencies to ensure compliance with the Covered Clearing Agency Standards. These practices and requirements include, among other things, the maintenance of a model inventory ("Model Inventory"), a process for rating model materiality and complexity, processes for performing model validations and resolving findings identified during model validation, and processes for model performance monitoring, including backtesting and sensitivity analyses. The Framework also describes applicable internal ownership and governance requirements.<sup>11</sup>

The proposed rule change would harmonize the terminology used in the Framework relating to model validation, with the definition used by the Covered Clearing Agency Standards, by deleting "full" where it appears as a modifier to "model validation" in the Framework. The proposed rule change would also amend the Framework to provide the Clearing Agencies with the ability to make limited time extensions for provisional approvals of models. In this regard, the proposed rule change is designed to facilitate the Clearing Agencies' ability to prudently manage contingencies relating to events or changes of circumstance that may impact the Clearing Agencies' management of credit risk, margin, and liquidity risk management models, in accordance with the Framework. Additionally, the proposed rule change would make technical and clarifying

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<sup>11</sup> See MRMF Filings, supra note 5, for additional information on the contents of the Framework.

changes to the text of the Framework, as described below.

### Proposed Rule Change

#### Eliminate References to “Full” Model Validation

With respect to model validation, the Covered Clearing Agency Standards refer to the term simply as “model validation,” as defined by Rule 17Ad-22(a)(9) under the Act.<sup>12</sup> However, the Framework refers to model validation both as a “full model validation” and “model validation,” and as an undefined and defined term depending on usage. For example, Section 1 (Executive Summary) of the Framework describes Section 3 (Model Risk Management Framework), among other things, as including a discussion on “full model validation.” Yet, “Model Validation” is first defined in Section 3 as the definition used by the Covered Clearing Agency Standards, which does not use the modifier “full.” Moreover, references to full model validation and model validation in the Framework have the same meaning, as the Framework does not distinguish between the two.

To address these unnecessary variations, the Clearing Agencies propose to harmonize the terminology used in the Framework relating to model validation, with the applicable term used in the Covered Clearing Agency Standards, by deleting “full” in all instances where it appears as a modifier to “model validation” in the Framework. In this regard, the word “full” preceding “model validation” would be deleted from the Framework in all instances where it appears, including (i) from the reference in Section 1

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<sup>12</sup> The term “model validation” means an evaluation of the performance of each material risk management model used by a covered clearing agency (and the related parameters and assumptions associated with such models), including initial margin models, liquidity risk models, and models used to generate clearing or guaranty fund requirements, performed by a qualified person who is free from influence from the persons responsible for the development or operation of the models or policies being validated. 17 CFR 240.17Ad-22(a)(9).

of the Framework, mentioned above, (ii) renaming Section 3.3 of the Framework, named Full Model Validation, as “Model Validation,” and (iii) deleting four appearances of the word “full” before “Model Validation” in the text of Section 3.

#### Extension of Provisional Approvals of Models

The Covered Clearing Agency Standards require that the Clearing Agencies identify, measure, monitor, and manage their respective credit exposures and liquidity risks by performing model validations of their respective credit risk and liquidity risk models not less than annually or more frequently as may be contemplated by the applicable Clearing Agency’s established risk management framework.<sup>13</sup> A covered clearing agency that is a central counterparty must perform a model validation for its margin system and related models not less than annually or more frequently as may be contemplated by such central counterparty’s risk management framework.<sup>14</sup>

Section 3.6 of the Framework (Model Approval and Control) provides that new models, and material changes to existing models, shall undergo model validation by MRM and then be approved by MRM prior to business use.

In the absence of a Model Validation, provisional approvals with respect to new models and material changes to existing models may be issued to allow a model to be used for urgent business purposes prior to the completion of MRM’s Model Validation. Such provisional approval requests must be presented by the applicable Model Owner<sup>15</sup>

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<sup>13</sup> See 17 CFR 240.17Ad-22(e)(4)(vii) and (e)(7)(vii).

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

<sup>15</sup> Pursuant to Section 3.1 of the Framework, the “Model Owner” is the person designated by the applicable business area or support function to be responsible for a particular model. The Model Owner is recorded in the Model Inventory.

to MRM, which may provisionally approve the model for a limited period not to exceed six months.

The Framework does not provide for extensions of this six-month provisional approval period. However, MRM has observed, over time and since the Framework was initially filed,<sup>16</sup> that it could take longer than six months to complete a model validation in accordance with the timeframe set forth in Section 3.3 of the Framework. For example, a model that has been provisionally approved and put into use while undergoing further modification and/or enhancement by a third-party developer, cannot undergo validation by MRM until such time as the developer has completed its process and made the enhanced model available to the Clearing Agencies. Considering the amount of time it may take for the developer to complete and deliver the modification and/or enhancement to the Clearing Agencies, as well as MRM's validation process itself, it may be necessary for the model to operate under provisional approval for a period greater than six months.

Therefore, pursuant to the proposed rule change, the Clearing Agencies would amend Section 3.6 of the Framework to provide that provisional approvals of models may be extended if approved by the Managing Director of MRM and notice thereof is given to the Group Chief Risk Officer; however, in accordance with the Covered Clearing Agency Standards requirements that credit, liquidity and margin models, as applicable, be validated at least annually,<sup>17</sup> in no event shall any provisional approval, together with any extension(s) granted, exceed one year. In this regard, the proposed rule change would

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<sup>16</sup> Supra note 5.

<sup>17</sup> See 17 CFR 240.17Ad-22(e)(4)(vii), (e)(6)(vii) and (e)(7)(vii).

accommodate the incorporation of any modifications and enhancements identified by a developer into a provisionally approved model prior to model validation, and still allow the model validation to be completed within a timeframe that would be consistent with the requirements of both the Framework and the Covered Clearing Agency Standards.

### Technical and Clarifying Changes

#### Section 1 (Executive Summary)

A sentence in Footnote 8 under Section 1 (Executive Summary) of the Framework would be revised for clarity and grammatical usage. The footnote describes the Model Risk Tolerance Statement and the Market Risk Tolerance Statement, which are listed in Section 1 among a series of documents used by the Clearing Agencies to support their execution of the Framework. In describing the Market Risk Tolerance Statement, the footnote states: "... the Market Risk Tolerance Statement, which articulates, among other things, risk tolerance levels covering margin backtests covering backtest coverage and stress tests covering exposure to extreme market moves." The proposed rule change would eliminate certain repetitive usage of "covering" and "coverage" in the text quoted above such that the applicable text would read as follows: "... the Market Risk Tolerance Statement, which articulates, among other things, risk tolerance levels covering margin backtests and stress tests related to exposure to extreme market moves."

#### Section 2 (Model Risk Management Requirements)

The first paragraph of Section 2 is intended by the Clearing Agencies to describe that in compliance with Rules 17Ad-22(e)(4)(vii),<sup>18</sup> and (e)(7)(vii)<sup>19</sup> of the Covered

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<sup>18</sup> 17 CFR 240.17Ad-22(e)(4)(vii).

<sup>19</sup> 17 CFR 240.17Ad-22(e)(7)(vii).

Clearing Agency Standards, each Clearing Agency is required to establish, implement, maintain and enforce written policies and procedures reasonably designed to perform model validations on its credit risk models and liquidity risk models not less than annually or more frequently as may be contemplated by the Clearing Agency's risk management framework established pursuant to Rule 17Ad-22(e)(3).<sup>20</sup> The main text of the paragraph contains typographical errors, in that in place of the reference to section (e) in each of the three rules cited in the paragraph, it instead includes an erroneous reference to a section (C). However, the footnotes to these references contain the correct citations. The Clearing Agencies would revise the main text of the paragraph to correct the erroneous references to section (C) to instead refer to section (e).

#### Section 3.1 (Model Inventory)

Section 3.1 (Model Inventory) (i) sets forth the definition of model adopted by the Clearing Agencies,<sup>21</sup> (ii) defines MRM as responsible for model risk management as a second-line function that is charged with determining whether any proposed method, system, or approach designed for Clearing Agency use meets the definition of model, (iii) provides a definition of Model Inventory as the definitive list of models subject to the Framework, (iv) describes a model inventory survey that is conducted at least annually across the Clearing Agencies to confirm that the Model Inventory is current, and (v) describes that all models subject to the Framework are validated, as described in the Framework.

The proposed rule change would make technical and clarifying changes to the

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<sup>20</sup> 17 CFR 240.17Ad-22(e)(3).

<sup>21</sup> See supra note 7.

second paragraph of this section, which states:

The Model unit within the Group Chief Risk Office that is responsible for model risk management as a second-line function (“MRM”) is charged with determining whether any proposed method, system, or approach designed for Clearing Agency use meets the above definition. All models subject to this Framework will be added to the definitive list of models (“Model Inventory”) and tracked by MRM. A Model Inventory Survey is conducted at least annually across the Clearing Agencies to confirm the Model Inventory is current (“Annual Model Inventory Survey”). During the Annual Model Inventory Survey, any business area or support function intending to have a model developed for Clearing Agency use will submit materials relevant to such proposed model for MRM to review and assess whether such proposed model will be added to the Model Inventory. The person designated by the applicable business area or support function to be responsible for a particular model (“Model Owner”) is recorded as the Model Owner for such model by MRM in the Model Inventory.

First, for enhanced clarity, the first sentence of the paragraph would be revised to replace the initial reference to “The Model” with “Model Risk Management” and define the term as “MRM” directly after it is mentioned, rather than after additional descriptive text that follows in the sentence. The proposed rule change would also eliminate the reference to MRM as a “unit” because this reference is redundant given the context describing the functionality of MRM implies that it is a unit or group. Conforming grammatical changes would also be made to delete “that” after “Group Chief Risk

Office” and add “and” after “second-line function.” The third sentence of the paragraph would be revised to make the initial letters in the words “Model Inventory Survey” lower case (i.e., “model inventory survey”) as the term is not defined, but rather the reference is part of the description of the defined term “Annual Model Inventory Survey” that appears at the end of the sentence. The fourth sentence of the paragraph would be revised for consistency by replacing “business area or support function” with “business line or functional unit,” as the latter reflects usage of text in underlying MRM internal procedures.

Second, the Clearing Agencies believe that adding to the Model Inventory certain methodologies used to implement configuration choices made by the Clearing Agencies, such as data sources, model parameters, and model performance monitoring, including but not limited to backtesting, that are not inherent to model selection or design and that do not materially impact a model’s results, and are not models subject to this Framework, may provide benefits for the Clearing Agencies in terms of monitoring and tracking of such methodologies. In this regard, the Clearing Agencies would add text to reflect that such methodologies may be added to the Model Inventory at MRM’s discretion.

Finally, in the third paragraph of this section, the Clearing Agencies would change a reference to “risk management standards” to “Standards” to conform to the defined term for the Covered Clearing Agency Standards used throughout the Framework.

### Section 3.2 (Model Materiality and Complexity)

Section 3.2 of the Framework describes that a model’s output can affect decision making (e.g., decisions with respect to Clearing Fund/Participants Fund, backtesting, and

stress testing measures), which may have a material impact on the Clearing Agency, and that each model subject to the Framework is assigned a materiality/complexity rating in this regard. The section states that “[m]ateriality/complexity index assignments are made at the time the applicable model is added to the Model Inventory and are used by MRM for Model Validation prioritization. All model materiality/complexity index assignments are reviewed at least annually by MRM, as well as by the Model Risk Governance Council (“MRGC”), the forum for review of model risk matters.” Pursuant to the proposed rule change, the Clearing Agencies would replace both appearances of the words “index assignments” in these two sentences with “scores.” This change would align the text of the Framework with MRM’s practice, whereby MRM reviews materiality and complexity scores of a model, which directly determine the applicable materiality/complexity rating, at least annually.<sup>22</sup>

### Section 3.3 (Full Model Validation)

In addition to deleting “full” where it appears as a modifier to “model validation” in Section 3.3 of the Framework, as described above, including in the title of the section, the proposed rule change would make other technical and clarifying changes to this section.

In a paragraph that describes Model Validation activities performed for new

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<sup>22</sup> Specifically, the Clearing Agencies use the “DTCC Model Development Standards,” which is a document describing that materiality and complexity scores for a model, which scores are based on certain factors, underlie the determination of the materiality/complexity rating of the model. In accordance with the DTCC Model Development Standards, factors relating to the materiality score include model usage, model hierarchy and model exposure. The factors relating to the complexity score include structural complexity, and data availability and treatment.

models:

- (i) a reference to “model development documentation and testing” would be changed to “model documentation and development testing”;
- (ii) a reference to “evaluation of data inputs and parameters” would be changed to “evaluation of model inputs and parameters”;
- (iii) a reference to “review of numerical implementation (including replication for certain key model components, which will vary from model to model)” would be changed to “review of model implementation for consistency with documentation”;
- (iv) a reference to “independent testing: sensitivity analysis, stress testing, and benchmarking, as appropriate” would be changed to “independent testing: model output evaluation, backtesting, sensitivity analysis, stress testing, and benchmarking, as appropriate”; and
- (v) a reference to “evaluation of model outputs, model performance, and back testing” would be changed to “evaluation of model performance monitoring (or “MPM”) plan and results.” Similarly, a reference to “model performance monitoring reports” in Section 3.8 of the Framework (Model Performance Monitoring) would be revised to consider the definition of the term MPM described above. In this regard, this reference in Section 3.8 would be revised to instead refer to “MPM reports.”

In the second paragraph of this section, the third sentence states: “The Application Development Department for the Clearing Agencies will perform certain production release quality assurance checks (e.g., user acceptance testing/systems

integration testing (UAT/SAT)).” Pursuant to the proposed rule change, this sentence would be revised to delete “Application Development Department for the” and “(UAT/SAT)”. This change would generalize the text to eliminate the need to revise the document in the event the name of the area that performs such testing changes.

The Clearing Agencies would also revise this paragraph with respect to text relating to ratings assigned to a model upon validation. In this regard, the Framework currently describes that the result of each Model Validation is a model validation report prepared by MRM (“Model Validation Report”), a key section of which is the summary of all findings and recommendations ranked according to the findings’ severity level, inclusive of any identified model limitations and compensating controls for the model. This text would be revised to remove the reference to recommendations as part of the Model Validation Report because, pursuant to MRM’s procedures, while the Model Validation Report includes findings, it does not include recommendations. In addition, the severity level of the findings is described in this section to be classified as H, M or L, which the Clearing Agencies intend as abbreviations for “High,” “Medium,” and “Low.” However, as these abbreviations are not otherwise defined in the Framework, the Clearing Agencies would replace the abbreviations with the full spelling of the classifications, such that the instances in the text of “H,” “M,” and “L” would be replaced with “High,” “Medium,” and “Low,” respectively.

This paragraph also describes that MRM will provide an overall assessment for each model having undergone a Model Validation (“Model Grade”).<sup>23</sup> The Clearing

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<sup>23</sup> The Clearing Agencies’ current grading scale consists of three grades – “A,” “B,” and “C.” Any Clearing Agency may add or remove grading levels in its

Agencies propose to clarify this text such that it describes each model that has been approved, as being rated (in the form of a Model Grade) by MRM, rather than providing an overall assessment.

This paragraph states further that the Model Grade, together with the model materiality/complexity index assignment, serves to provide context for MRM's overall assessment of the model's suitability and performance for its intended purpose. As with the revision described immediately above, the Clearing Agencies would remove the reference to a Model Grade as representing an overall assessment of the model. In its place, the proposed rule change would provide a description that the Model Grade outlines the overall assessed quality of the model developer's efforts to develop the model and the extent to which the model developer has effectively reduced model risk during model development.

In addition, it is the Model Grade that rates these development quality considerations and risk factors, and the Model Grade does not depend on the model materiality/complexity index assignment and is not intended to signify the overall suitability of the model for its intended purpose. Therefore, the Clearing Agencies would clarify this point to remove the reference to model materiality and complexity as being a factor in determining the Model Grade, as well as delete text that indicates the Model Grade reflects the suitability of a model for its intended purpose.

#### Section 3.4 (Periodic Model Validation)

Section 3.4 of the Framework describes that MRM shall perform a Model

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discretion, the parameters of which shall be reflected in written procedures established by such Clearing Agency.

Validation for each model subject to this Framework that is approved for use in production not less than annually (or more frequently as may be contemplated by such Clearing Agency’s established risk management framework), including each credit risk model,<sup>24</sup> each liquidity risk model,<sup>25</sup> and each CCP’s margin systems and related models,<sup>26</sup> as required by the risk management standards set forth in the Framework. This type of Model Validation is referred to generally in the Framework as “periodic” Model Validation. In this regard, for the sake of clarity, the Clearing Agencies would insert the word “periodic” as a modifier for Model Validation in the first sentence of the first paragraph of this section.

In addition, the Clearing Agencies would delete a paragraph from this section that states: “Periodic Model Validations follow full Model Validation standards. In certain cases, MRM may determine extra Model Validation activities are warranted based on previous Model Validation work and findings, changes in market conditions, or because performance monitoring of a particular model warrants extra validation.” This text would be deleted because, as noted above, the Framework recognizes one definition of Model Validation and the provisions relating to how Model Validation is conducted apply to all models regardless of timing, and it is unnecessary to state that periodic Model Validation follows the same standards as “full” Model Validation since there is only one concept of Model Validation. In addition, the reference to extra Model Validation activities is duplicative as the Framework contains other text indicating that Model

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<sup>24</sup> See 17 CFR 240.17Ad-22(e)(4)(vii).

<sup>25</sup> See 17 CFR 240.17Ad-22(e)(7)(vii).

<sup>26</sup> See 17 CFR 240.17Ad-22(e)(6)(vii).

Validations may be performed for a given model more frequently than on the minimum annual basis.

#### Section 3.5 (Model Change Management)

Section 3.5 of the Framework describes provisions relating to changes in models. The text of this section refers to a “version change” of a model in describing changes to third-party models. The section is intended to apply to any changes to a model and it is unnecessary to modify the word change, including with “version.” Therefore, the Clearing Agencies would delete the word “version” where it appears before “change” in this section.

#### Section 3.6 (Model Approval and Control)

In addition to the proposed change described above to extend the period allowable for a provisional approval to remain in effect, the Clearing Agencies would revise a sentence in Section 3.6 of the Framework that states: “Provisional approval requests along with appropriate control measures must be presented by the applicable Model Owner to MRM.” The sentence as written is duplicative as the first paragraph of Section 3.6 states that models must be submitted to MRM for approval. However, given the focus of this section on the approval of models, the Clearing Agencies believe that the section should more clearly state where the approval authority resides for provisional models. As stated above, it is MRM’s responsibility to approve models. Therefore, the Clearing Agencies would revise the sentence described above to read: “Provisional approval requests along with appropriate control measures must be approved by MRM.”

A sentence that states: “All new models, and all material changes to existing models, shall undergo Model Validation by MRM and then be approved by MRM prior

to business use” would be revised to replace the word “then” with “must” to clarify the requirement that a model must be approved by MRM prior to use.

#### Section 3.7 (Resolution of Model Validation Findings)

Consistent with the proposed change described above to remove the description of a group within the Group Chief Risk Office as a “unit,” the Clearing Agencies would revise a reference to “the Operational Risk Management unit” to delete the word “unit” from this reference. Also, the Clearing Agencies would delete the word “the” before “Operational Risk” because it would not be grammatically correct when “unit” is deleted. In addition, the group name of “Operational Risk Management,” as set forth in this reference, would be revised to “Operational Risk” to reflect a recent name change of this group from Operational Risk Management to Operational Risk. In connection with this name change, the term “ORM” that is used in this section to define “Operational Risk Management” would be deleted. Also, in this regard, two subsequent references to ORM in the Framework, which appear in Section 3.7 and Section 4.2, respectively, would be removed and replaced with “Operational Risk.”

#### Section 3.8 (Model Performance and Monitoring)

In addition to a change relating to the definition of MRM described above, the Clearing Agencies would revise a footnote in Section 3.8 of the Framework. The footnote 29 describes the role Quantitative Risk Management (“QRM”) performs with respect to the CCPs’ margin models. A sentence within the note states that a representative of QRM self-elects as the owner of a margin model. In fact, the CCPs’ procedures would require the representative to be appointed as the owner of a model. Therefore, the Clearing Agencies would revise this footnote to reflect that a

representative of QRM is appointed as the owner of a model.

This section also contains a statement that MRM is responsible for providing oversight of model performance monitoring activities by setting organizational standards and providing critical analysis for identifying model issues and/or limitations. This statement has a footnote that states the organizational standards apply to DTCC's<sup>27</sup> subsidiaries, as applicable. This footnote is unnecessary because the Framework applies only to the Clearing Agencies and no other subsidiaries of DTCC, and the mention to DTCC's subsidiaries in general is extraneous. Therefore, pursuant to the proposed rule change, the Clearing Agencies would delete this footnote.

#### Section 3.9 (Backtesting)

Section 3.9 of the Framework contains a description of backtesting performed by the Clearing Agencies. Pursuant to the proposed rule change, this section would be revised to delete references to backtesting performed by DTC and related text, including applicable metrics and thresholds, and a related footnote that describes the designation of DTC account families by DTC Participants for purposes of managing Collateral Monitor and Net Debit Cap. The proposed change would be consistent with the Covered Clearing Agency Standards, which pursuant to Rule 17Ad-22(e)(6)<sup>28</sup> requires certain backtesting to be performed by the CCPs. As indicated above, this rule does not apply to DTC.<sup>29</sup> In this regard, a reference to a backtesting metric (Collateral Group Collateral Monitor

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<sup>27</sup> The Depository Trust & Clearing Corporation (“DTCC”) is the parent company of the Clearing Agencies.

<sup>28</sup> See 17 CFR 240.17Ad-22(e)(6)

<sup>29</sup> See supra note 8.

Coverage) mentioned in Section 4.2 of the Framework (Escalation) would also be deleted.

#### Section 4.2 (Escalation)

A paragraph within Section 4.2 of the Framework states: “On at least a monthly basis, the key metrics identified in Section 3.9 are reviewed by the Market and Liquidity Risk Management unit within the Group Chief Risk Office and reported to the MRC<sup>30</sup> by the group within the Group Chief Risk Office responsible for risk reporting. Threshold breaches will be reviewed by the Managing Directors within the Financial Risk Management area (including the Market and Liquidity Risk Management unit) of the Group Chief Risk Office, and in the case of CFR Coverage breaches by the CCPs and Collateral Group Collateral Monitor Coverage by DTC, escalated to the BRC in accordance with the applicable Risk Tolerance Statement.”

Pursuant to the proposed rule change, first, the reference to a Market and Liquidity Risk Management unit would be revised to reflect only the Market Risk Management unit. Today, the Market Risk Management and Liquidity Risk Management areas are under separate management, and Market Risk Management is the area that performs the review of key metrics described in the paragraph.

Second, the Clearing Agencies would revise the paragraph to remove the parenthetical that states, “including the Market and Liquidity Risk Management unit,” after a reference to the Financial Risk Management area’s role in the review of threshold breaches of key metrics, as both units are part of Financial Risk Management, and

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<sup>30</sup> MRC refers to the Management Risk Committee of the Boards of Directors of the Clearing Agencies.

therefore the parenthetical is unnecessary. In this regard, the proposed modification would enhance readability.

Third, the Clearing Agencies would remove the text “by the group within the Group Chief Risk Office responsible for risk reporting” as it is unnecessary since it can be inferred that reports would be provided by the group responsible for such reporting.

## 2. Statutory Basis

The Clearing Agencies believe that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,<sup>31</sup> as well as Rules 17Ad-22(e)(4), (e)(6), and (e)(7) thereunder,<sup>32</sup> for the reasons described below.

Section 17A(b)(3)(F) of the Act<sup>33</sup> requires, inter alia, that the rules of a clearing agency be designed to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. As described above, the proposed rule change enhances (i) the Clearing Agencies’ ability to complete modifications to a provisionally approved model prior to the performance of a model validation and (ii) the text of the Framework to facilitate clarity for the areas within the Clearing Agencies that perform responsibilities with regard to model risk management and compliance with the Framework. By enhancing the Framework in this regard, the proposed rule change supports the Clearing Agencies’ performance of their responsibilities under the Framework, including but not limited to assuring that models

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<sup>31</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>32</sup> 17 CFR 240.17Ad-22(e)(4), (e)(6), and (e)(7). References to Rule 17Ad-22(e)(6) and compliance therewith apply to the CCPs only and not to DTC.

<sup>33</sup> 15 U.S.C. 78q-1(b)(3)(F).

developed function as intended to support the Clearing Agencies in identifying, measuring, monitoring, and managing their respective credit exposures, liquidity risks and, as applicable, the maintenance of sufficient margin to cover these risks. In this regard, the proposed rule change would promote the safeguarding of securities and funds which are in the custody or control of the Clearing Agencies or for which they are responsible, by promoting the ability of the Clearing Agencies to manage credit exposures and liquidity risk that may impact the safeguarding of those funds and securities.

Rules 17Ad-22(e)(4), (e)(6), and (e)(7) under the Act<sup>34</sup> require, inter alia, that a covered clearing agency establish, implement, maintain, and enforce written policies and procedures reasonably designed to manage risks associated with its credit risk management models, margin models, and liquidity risk management models, respectively, as applicable. As discussed above, the proposed rule change enhances (i) the Clearing Agencies' ability to complete modifications to a provisionally approved model prior to the performance of a model validation and (ii) the text of the Framework to facilitate clarity for the areas within the Clearing Agencies that perform responsibilities with regard model risk management and compliance with the Framework. By enhancing the Framework in this regard, the proposed rule change supports the Clearing Agencies' performance of their responsibilities under the Framework, including but not limited to assuring that models developed function as intended to support the Clearing Agencies in identifying, measuring, monitoring, and managing their respective credit exposures,

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<sup>34</sup> 17 CFR 240.17Ad-22(e)(4), (e)(6), and (e)(7). References to Rule 17Ad-22(e)(6) and compliance therewith apply to the CCPs only and not to DTC.

liquidity risks and, as applicable, the maintenance of sufficient margin to cover these risks. Therefore, the Clearing Agencies believe that the proposed changes to the Framework are consistent with Rules 17Ad-22(e)(4), (e)(6), and (e)(7).<sup>35</sup>

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

The Clearing Agencies do not believe that the proposed rule change would have any impact, or impose any burden, on competition because the proposed rule change simply modifies the Framework governing the management of model risk by the Clearing Agencies and (a) would not effectuate any changes to the Clearing Agencies' model risk management tools as they apply to their respective Members or Participants and (b) would not have an effect with respect to the obligations of participants utilizing Clearing Agency services.

(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

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<sup>35</sup>

Id.

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 to not 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>36</sup> and Rule 19b-4(f)(6) thereunder.<sup>37</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

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<sup>36</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>37</sup> 17 CFR 240.19b-4(f)(6).

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-2022-001 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-2022-001. 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 ([26](http://dtcc.com/legal/sec-rule-</a></p></div><div data-bbox=)

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-2022-001 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>38</sup>

J. Matthew DeLesDernier  
Assistant Secretary

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<sup>38</sup> 17 CFR 200.30-3(a)(12).