

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-81667; File Nos. SR-DTC-2017-016; SR-NSCC-2017-016; SR-FICC-2017-020)

September 21, 2017

Self-Regulatory Organizations; The Depository Trust Company; National Securities Clearing Corporation; Fixed Income Clearing Corporation; Notice of Filings of Proposed Rule Changes to Adopt the Clearing Agency Securities Valuation Framework

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 8, 2017, The Depository Trust Company (“DTC”), National Securities Clearing Corporation (“NSCC”), and Fixed Income Clearing Corporation (“FICC,” each a “Clearing Agency,” and together with DTC and NSCC, the “Clearing Agencies”), filed with the Securities and Exchange Commission (“Commission”) the proposed rule changes as described in Items I, II and III below, which Items have been prepared primarily by the Clearing Agencies. The Commission is publishing this notice to solicit comments on the proposed rule changes from interested persons.

I. Clearing Agencies’ Statement of the Terms of Substance of the Proposed Rule Changes

The proposed rule changes would adopt the Clearing Agency Securities Valuation Framework (“Framework”)<sup>3</sup> of the Clearing Agencies, as described below, including both of FICC’s divisions: the Government Securities Division (“GSD”) and the Mortgage-Backed Securities Division (“MBSD”). The Framework would be maintained by the Clearing Agencies

---

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

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

<sup>3</sup> Pursuant to a telephone call with the Clearing Agencies’ internal counsel on September 19, 2017, staff in the Commission’s Office of Clearance and Settlement corrected the title of the Framework from “Clearing Agency Securities Framework” to “Clearing Agency Securities Valuation Framework,” as it now reads.

to support their compliance with Rule 17Ad-22(e)(4)(i)<sup>4</sup> under the Act and, with respect to NSCC and FICC as central counterparties (the “CCPs”), Rule 17Ad-22(e)(6)(iv)<sup>5</sup> under the Act, as described below.

Although the Clearing Agencies would consider the Framework to be a rule, the proposed rule changes do not require any changes to the Rules, By-laws and Organization Certificate of DTC (“DTC Rules”), the Rulebook of GSD (“GSD Rules”), the Clearing Rules of MBSD (“MBSD Rules”), or the Rules & Procedures of NSCC (“NSCC Rules”), as the Framework would be a standalone document.<sup>6</sup>

## II. Clearing Agencies’ Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

In their filings with the Commission, the Clearing Agencies included statements concerning the purpose of and basis for the proposed rule changes and discussed any comments they received on the proposed rule changes. The text of these statements may be examined at the places specified in Item IV below. The Clearing Agencies have prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

---

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

<sup>5</sup> 17 CFR 240.17Ad-22(e)(6)(iv). Each of the Clearing Agencies is a “covered clearing agency” as defined in Rule 17Ad-22(a)(5), and must comply with subsection (e) of Rule 17Ad-22. As Rule 17Ad-22(e)(6)(iv) only applies to covered clearing agencies that are central counterparties, references thereto and compliance therewith apply to the CCPs only and do not apply to DTC.

<sup>6</sup> Capitalized terms not defined herein are defined in the DTC Rules, GSD Rules, MBSD Rules, or NSCC Rules, as applicable, available at <http://dtcc.com/legal/rules-and-procedures>.

(A) Clearing Agencies' Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Changes

1. Purpose

The Clearing Agencies are proposing to adopt the Framework, which would set forth the securities valuation practices adopted by the Clearing Agencies for (i) securities eligible for clearance and settlement processing by the applicable Clearing Agency and (ii) with respect to the CCPs, eligible securities in their respective Clearing Funds (each, a "CUSIP"). The processes and systems described in the Framework, and any policies, procedures, or other documents created to support those processes, support the Clearing Agencies' compliance with the requirements of Rule 17Ad-22(e)(4)(i)<sup>7</sup> and, with respect to the CCPs, Rule 17Ad-22(e)(6)(iv).<sup>8</sup> The Framework would be owned and managed by the head of the DTCC Securities Valuation team, on behalf of the Clearing Agencies.<sup>9</sup>

The Framework would provide that (i) any changes to the Framework must be approved by the Boards or such committee as may be delegated authority by the Boards from time to time pursuant to their charters, (ii) the head of the Securities Valuation team, or a delegate thereof, reviews the Framework at least annually, and (iii) any and all changes to the Framework are subject to regulatory review and approval.

---

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

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

<sup>9</sup> The parent company of the Clearing Agencies is The Depository Trust & Clearing Corporation ("DTCC"). DTCC operates on a shared services model with respect to the Clearing Agencies. Most corporate functions are established and managed on an enterprise-wide basis pursuant to intercompany agreements under which it is generally DTCC that provides a relevant service to a Clearing Agency.

To the extent the Clearing Agencies create any policies, procedures or other documents to support the execution of the Framework, the Framework would provide that such supplemental documentation is subordinate to the Framework, is reasonably and fairly implied by the Framework, and complies in all respects with the provisions of the Framework.

As described in more detail below, the Framework would describe the manner in which the Clearing Agencies identify, measure, monitor, and manage the risks related to the pricing of the CUSIPs. The Framework would set forth the methodology of the Clearing Agencies for using timely price data and for pricing CUSIPs when pricing data are not readily available or reliable. The Framework would also describe the methodology for monitoring pricing data with respect to the CUSIPs.

#### *Selection of Pricing Vendors*

Each Clearing Agency would value its applicable CUSIP prices (both end-of-day and intraday) primarily via receipt of files from third-party pricing vendors (“Pricing Vendors”).<sup>10</sup> For most CUSIPs, Pricing Vendors would supply the Clearing Agencies with intraday pricing files for each business day on at least an hourly basis.<sup>11</sup> Pricing Vendors would be selected by each Clearing Agency based on a review of their service, including, at a minimum, a review of Pricing Vendors’ securities coverage and a price quality check. Each Clearing Agency would perform due diligence on each Pricing Vendor prior to engagement thereof, and at least annually thereafter, to assess the reliability of such Pricing Vendor. Reliability of a Pricing Vendor would be determined by each Clearing Agency based on a range of factors, including, without

---

<sup>10</sup> When pricing data is not available from Pricing Vendors, the price would be procured from other internal or external sources.

<sup>11</sup> Certain CUSIPs may not be priced daily, and others may only be priced once each business day.

limitation, whether such Pricing Vendor is able to provide accurate and timely pricing data with respect to each CUSIP.

The Framework would provide that each CUSIP is assigned a primary source Pricing Vendor (“Primary Pricing Vendor”) and a secondary source Pricing Vendor (“Secondary Pricing Vendor”). In the event that the Primary Pricing Vendor becomes unavailable, unreliable, or otherwise unusable with respect to a CUSIP, the Secondary Pricing Vendor would be designated as the replacement for the Primary Pricing Vendor with respect to such CUSIP.

#### *Monitoring and Pricing*

Each Clearing Agency would monitor and review each applicable Pricing Vendor’s pricing at least once each business day to determine (i) whether any CUSIP’s price has remained unchanged for an extended period, (ii) whether a CUSIP has been dropped from the Pricing Vendor’s file, and (iii) whether any other circumstances exist that may call into question the reliability of any CUSIP’s price.

Each CUSIP’s end-of-day price would be date stamped and identified with its Pricing Vendor source. In the event that both Primary Pricing Vendor and Secondary Pricing Vendor become unavailable, unreliable, or otherwise unusable with respect to a CUSIP for an end-of-day price, the applicable Clearing Agency would assign such CUSIP its last available price.

Each CUSIP’s intraday price would be time and date stamped and identified with its Pricing Vendor source. In the event that both Primary Pricing Vendor and Secondary Pricing Vendor become unavailable, unreliable, or otherwise unusable with respect to a CUSIP for a specific intraday interval, the applicable Clearing Agency would assign such CUSIP its last available price.

If pricing data for a CUSIP is not available from Pricing Vendors or if the last available price is deemed to be unreliable or unusable with respect to a CUSIP, the applicable Clearing Agency would establish a price for the CUSIP based on valuation models, where applicable, and in accordance with the policies and procedures that support the Framework.

## 2. Statutory Basis

The Clearing Agencies believe that the proposed rule changes are 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 that the Framework is consistent with Section 17A(b)(3)(F) of the Act<sup>12</sup> as well as Rule 17Ad-22(e)(4)(i)<sup>13</sup> and, with respect to the CCPs, Rule 17Ad-22(e)(6)(iv)<sup>14</sup> promulgated under the Act, 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>15</sup> As described above, the Framework would set forth the manner in which the Clearing Agencies identify, measure, monitor, and manage the risks related to the pricing of securities processed or otherwise held by the Clearing Agencies. The processes, systems, and controls used by the Clearing Agencies to identify, measure, monitor, and manage such risks, as described in the Framework, and the policies and procedures that support these activities, would help assure that each Clearing

---

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

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

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

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

Agency is using reliable sources of timely price data as well as procedures and sound valuation models when pricing data are not readily available or reliable. Using reliable sources of timely price data as well as procedures and sound valuation models when pricing data are not readily available or reliable (i) with respect to the CCPs, would improve their margin system accuracy and (ii) with respect to DTC, is essential for the daily settlement of securities transactions in a fully collateralized system. Since margin and collateral play key roles in the applicable Clearing Agency's risk management process, having accurate margin system and collateral valuation would assist the Clearing Agencies to continue 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. Therefore, the Clearing Agencies believe the Framework is consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>16</sup>

Rule 17Ad-22(e)(4)(i) under the Act requires that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant with a high degree of confidence.<sup>17</sup> The Framework would describe how the Clearing Agencies identify, measure, monitor, and manage the risks related to the pricing of securities processed or otherwise held by the Clearing Agencies. The processes, systems, and controls used by the Clearing Agencies to identify, measure, monitor, and manage such risks, as described in the Framework, and the policies and

---

<sup>16</sup> Id.

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

procedures that support these activities, would help assure that each Clearing Agency is using (i) reliable sources of timely price data when pricing securities processed or otherwise held by the applicable Clearing Agency and (ii) procedures and sound valuation models when pricing data are not readily available or reliable. When pricing securities, using reliable sources of timely price data as well as procedures and sound valuation models when pricing data are not readily available or reliable is essential to each Clearing Agency's ability to effectively identify, measure, monitor and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant with a high degree of confidence. Therefore, the Clearing Agencies believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(4)(i).<sup>18</sup>

Rule 17Ad-22(e)(6)(iv) under the Act requires that each covered clearing agency that is a central counterparty establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses reliable sources of timely price data and uses procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable.<sup>19</sup> The Framework would describe how the CCPs identify, measure, monitor, and manage the risks related to the pricing of securities processed or otherwise held by the CCPs. The processes, systems, and controls used by the CCPs to identify, measure, monitor, and manage such risks, as described in the Framework, and the policies and procedures that support these activities, would help assure that each CCP is using reliable sources of timely price

---

<sup>18</sup> Id.

<sup>19</sup> 17 CFR 240.17Ad-22(e)(6)(iv).

data as well as procedures and sound valuation models when pricing data are not readily available or reliable. Specifically, the Framework would set forth the methodology for pricing securities processed or otherwise held by each CCP, including monitoring pricing data with respect to the securities eligible for clearance and settlement processing by the CCP and for eligible securities held in its Clearing Fund. In addition, the Framework would describe how each CCP would price securities when pricing data are not readily available or reliable. By setting forth how the CCPs would use timely price data when pricing securities and how each CCP would price securities when pricing data are not readily available or reliable, the CCPs believe the Framework is consistent with the requirements of Rule 17Ad-22(e)(6)(iv).<sup>20</sup>

(B) Clearing Agencies' Statement on Burden on Competition

None of the Clearing Agencies believe that the Framework would have any impact, or impose any burden, on competition because the proposed rule changes reflect some of the existing securities valuation practices that the Clearing Agencies employ, which have been designed to assist the Clearing Agencies in using reliable sources of timely price data as well as procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable. The proposed rule changes would not effectuate any changes to the Clearing Agencies' processes described therein as they currently apply to their respective members or participants.

---

<sup>20</sup>

Id.

(C) Clearing Agencies' Statement on Comments on the Proposed Rule Changes Received from Members, Participants, or Others

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

III. Date of Effectiveness of the Proposed Rule Changes, 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 clearing agency consents, the Commission will:

- (A) by order approve or disapprove such proposed rule changes, or
- (B) institute proceedings to determine whether the proposed rule changes 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 changes are consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-DTC-2017-016, SR-NSCC-2017-016, or SR-FICC-2017-020 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-DTC-2017-016, SR-NSCC-2017-016, or SR-FICC-2017-020. One of these file numbers 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 changes that are filed with the Commission, and all written communications relating to the proposed rule changes 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 the Clearing Agencies and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-DTC-2017-016, SR-NSCC-2017-016, or SR-FICC-2017-020, 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>21</sup>

Eduardo A. Aleman  
Assistant Secretary

---

<sup>21</sup> 17 CFR 200.30-3(a)(12).