SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; The Depository Trust Company; Fixed Income Clearing Corporation; National Securities Clearing Corporation; Notice of Filing of Amendments No. 2 and Order Granting Accelerated Approval of Proposed Rule Changes, as Modified by Amendments Nos. 1 and 2, to Adopt the Clearing Agency Stress Testing Framework (Market Risk)

December 19, 2017

I. Introduction


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The proposed rule changes were published for comment in the Federal Register on April 25, 2017.³ On June 7, 2017, the Commission designated a longer period for Commission Action on the proposed rule changes.⁴ On July 19, 2017, the Clearing Agencies each filed Amendments No. 1 to their respective proposed rule changes. Amendments No. 1 would clarify how the Clearing Agencies would use scenarios to estimate the profits and losses (“P&L”) of a member closeout.

On July 24, 2017, the Commission published a notice in the Federal Register of filing Amendments No. 1 and order instituting proceedings under Section 19(b)(2)(B)(i) of the Act⁵ to determine whether to approve or disapprove the proposed rule changes.⁶ On October 16, 2017, the Commission designated a longer period on the proceedings to determine whether to approve or disapprove the proposed rule changes.⁷ On December 12, 2017, the Clearing Agencies each filed Amendments No. 2 to their respective proposed rule changes (hereinafter, “Proposed Rule Changes”). Amendments No. 2 would clarify the historical scenarios that the Clearing Agency would use for stress testing. The Commission did not receive any comment letters on the Proposed Rule Changes.


II. **Description of the Proposed Rule Changes**

The Proposed Rule Changes would adopt the Clearing Agency Stress Testing Framework (Market Risk) ("Framework"), which would set the Clearing Agencies’ procedures for identifying, measuring, monitoring, and managing their credit exposures to members. Although the Framework would be a rule of each Clearing Agency, the Proposed Rule Changes do not require any changes to the Rules, By-Laws and Organizational 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.  

In general, the Framework would describe the stress-testing practices adopted by the Clearing Agencies. The Clearing Agencies designed their stress testing to help ensure the sufficiency of each Clearing Agency’s total prefunded-financial resources. The Framework would describe (i) the sources of each Clearing Agency’s total prefunded-financial resources; (ii) the Clearing Agencies’ stress-testing methodologies; (iii) the

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8 Available at http://www.dtcc.com/en/legal/rules-and-procedures. FICC is comprised of two divisions: the Government Securities Division ("GSD") and the Mortgage-Backed Securities Division ("MBSD"). Each division serves as a central counterparty, becoming the buyer and seller to each of their respective members’ securities transactions and guarantying settlement of those transactions, even if a member defaults. GSD provides, among other things, clearance and settlement for trades in U.S. Government debt issues. MBSD provides, among other things, clearance and settlement for trades in mortgage-backed securities. GSD and MBSD maintain separate sets of rules, margin models, and clearing funds. Notice, 82 FR at 19131.

9 Notice, 82 FR at 19132.
Clearing Agencies’ stress-testing governance and execution processes; and (iv) the Clearing Agencies’ model-validation practices.\textsuperscript{10}

A. Sources of Prefunded-Financial Resources

The Framework would outline the prefunded-financial resources and related stress-testing methodologies of the Clearing Agencies. The Framework would begin by describing the applicable regulatory requirements, with respect to credit risk management, of each Clearing Agency and how the Clearing Agencies address those requirements.\textsuperscript{11} The Framework would address those requirements by describing how each Clearing Agency maintains sufficient prefunded-financial resources to cover fully the credit exposures to each of their respective members with a high degree of confidence.\textsuperscript{12} The Framework would also describe how the Clearing Agencies maintain additional prefunded-financial resources that, at a minimum, would enable them to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the affiliated family of members (“Affiliated Family”) that would potentially cause the largest aggregate credit exposure to the Clearing Agency in extreme but plausible market conditions (“Cover One Requirement”).\textsuperscript{13} Because the credit risks and prefunded-financial resources of each Clearing Agency differ, the Framework would describe the

\textsuperscript{10} Id.

\textsuperscript{11} Id.

\textsuperscript{12} Id.

\textsuperscript{13} See 17 CFR 240.17Ad-22(e)(4)(iii).
prefunded-financial resources and related stress-testing methodologies of the Clearing Agencies separately.\footnote{14}{Notice, 82 FR at 19132.}

With respect to FICC and NSCC, the Framework would describe that the prefunded-financial resources are their respective clearing funds, containing deposits from their members of both cash and eligible securities.\footnote{15}{Id. Any eligible security is subject to a haircut. GSD Rule 4 (Clearing Fund and Loss Allocation), MBSD Rule 4 (Clearing Fund and Loss Allocation), and NSCC Rule 4 (Clearing Fund), \textit{supra} note 8.} The Framework would describe that such deposits are calculated for each individual member pursuant to the GSD Rules, MBSD Rules, or NSCC Rules, as applicable, and each member’s deposit would be referred to in the Framework as its “Required Deposit.”\footnote{16}{Id.}

With respect to DTC, the Framework would describe that its prefunded-financial resources are cash deposits to its Participants Fund.\footnote{17}{Id. DTC Rule 4 (Participants Fund and Participants Investment). \textit{Supra} note 8.} The Framework would also describe that DTC may use its risk management control, the Collateral Monitor, to monitor and assure that the settlement obligations of each member are fully collateralized.\footnote{18}{Notice, 82 FR at 19132. “Collateral Monitor” is defined in DTC Rule 1, Section 1 (Definitions), and its calculation is further provided for in the DTC Settlement Service Guide of the DTC Rules. \textit{Supra} note 8.}

B. Stress-Testing Methodology

The Framework would describe the stress-testing methodologies that the Clearing Agencies use to test the sufficiency of their total prefunded-financial resources against the...
Cover One Requirement. The Framework would state that the stress testing is designed to identify potential weaknesses in the methodologies used to calculate members’ Required Deposits and to determine collateral haircuts.\(^{19}\)

The Framework would describe in detail the three key components of the development of stress-testing methodologies:

1. **Risk Identification.** The Clearing Agencies would identify the principal credit-risk drivers that are representative and specific to each Clearing Agency’s clearing and/or collateral portfolio under stressed market conditions.\(^{20}\)

2. **Scenario Development.** The Clearing Agencies would construct comprehensive and relevant sets of extreme but plausible historical and hypothetical stress scenarios for the identified risk drivers.\(^{21}\) The Framework would describe how the Clearing Agencies would develop and select both historical and hypothetical scenarios that reflect stressed market conditions.\(^{22}\) Historical scenarios would be based on stressed market conditions that occurred on specific dates in the past.\(^{23}\) In contrast, hypothetical stress scenarios would be theoretical market conditions.\(^{24}\)

3. **Risk Measurement and Aggregation.** The Clearing Agencies would calculate the risk metrics of each Clearing Agency’s actual portfolio to estimate

\(^{19}\) Id.

\(^{20}\) Id.

\(^{21}\) Id.

\(^{22}\) Id.

\(^{23}\) Notice, 82 FR at 19133.

\(^{24}\) Id.
the P&L of a close out over a suitable stressed period of risk, deficiencies, and coverage ratios. The Framework would describe how the Clearing Agencies would develop P&L estimation methodologies, and how they would calculate risk metrics that are applicable to such methodologies under the chosen stress-testing scenarios. The Clearing Agencies could use a number of P&L methodologies for stress-testing purposes, including risk sensitivity, index mapping, and actual or approximate historical shock approaches.

The Framework would further describe the stress-testing methodology by stating that the Clearing Agencies would calculate member stress deficiencies, Affiliated Family deficiencies, and Cover One Ratios daily. The Framework would further state that FICC and NSCC would consider non-Cover-One Ratio coverages, such as comparing member stress deficiencies against such member’s known financial resources (e.g., equity capital base), to keep abreast of

\[25\] Id.

\[26\] Id.

\[27\] Id.

\[28\] The Framework would define “member stress deficiency” for each scenario as, with respect to FICC and NSCC, the stress loss exceeding the applicable member’s Required Deposits. The Framework would define “member stress deficiency” for each scenario at DTC as the shortfall of a member’s Collateral Monitor. Id.

\[29\] The Framework would define “Affiliated Family deficiency” as the aggregate of all member stress deficiencies within the applicable Affiliated Family. Id.

\[30\] The Framework would define “Cover One Ratio” as the ratio of Affiliated Family deficiency over the total value of the relevant Clearing Agency’s clearing fund (or, for DTC, the Participants Fund), excluding the value of the applicable Affiliated Family’s Required Deposits. Id.
potential financial vulnerabilities facing such member.\(^{31}\) Additionally, the Framework would state that DTC would also test the adequacy of its collateral haircuts by measuring the amount of stress losses that exceed the haircut applied to the collateral securities (i.e., “Haircut Deficiency”).\(^{32}\)

Moreover, the Framework would state that the Clearing Agencies measure both specific and generic wrong-way risk for each Clearing Agency’s members and Affiliated Families.\(^{33}\) To measure specific wrong-way risk, for each given Member and its Affiliated Family and each given scenario, the securities issued by the Affiliated Family would be subject to shocks that reflect the default of a Member’s Affiliated Family. To measure general wrong-way risk, the Framework would apply historical scenarios during the 2008 financial crisis to securities issued by the Affiliated Family as well as securities issued by the non-Affiliated Family.

The Framework would also describe the reverse stress-testing analysis that is performed by FICC and NSCC on at least a semi-annual basis.\(^{34}\) The analysis would provide another means for FICC and NSCC, as central counterparties, to test the sufficiency of the Clearing Agencies’ respective prefunded financial resources.\(^{35}\) In conducting reverse stress-testing, FICC and NSCC would utilize scenarios of multiple defaults, extreme market shocks, or shocks for other risk factors, which would cause

\(^{31}\) Id.

\(^{32}\) Id.

\(^{33}\) Id.

\(^{34}\) Id.

\(^{35}\) Id.
those Clearing Agencies, as applicable, to exhaust all of their respective prefunded financial resources.  

C. Stress-Testing Governance and Execution Process

The Framework would describe the Clearing Agencies’ stress-testing governance and execution processes. Stress testing would be conducted daily for each of the Clearing Agencies, and stress-testing risk metrics also would be generated each day. The Cover One Ratios and member stress deficiencies would be monitored against pre-established thresholds. Breaches of these pre-established thresholds would initially be subject to more detailed studies to identify any potential impact to the applicable Clearing Agencies’ Cover One Requirement. The Framework would describe that, to the extent such studies indicate a potential impact to a Clearing Agency’s Cover One Requirement, the threshold breach would be escalated internally and analyzed to determine if (i) there is a need to adjust the stress-testing methodology, or (ii) the threshold breach indicates an issue with a particular member. Based on that analysis, the Clearing Agencies would determine the appropriate course of action.

D. Model Validation

36 Id.
37 Id. According to the Clearing Agencies, risk-threshold levels are chosen to assist each Clearing Agency in achieving a high degree of confidence that its Cover One Requirement is met daily.  Id.
38 Id.
39 Id.
40 Id.
41 Id.
The Framework would describe the process the Clearing Agencies would use to validate their stress-testing procedures. The Clearing Agencies would each conduct a comprehensive analysis of their respective daily stress-testing results, existing scenario sets (including any changes to such scenarios for the period since the last review), and the performance of the stress-testing methodologies along with key underlying parameters and assumptions.\textsuperscript{42} The analysis would be performed at least monthly and would be conducted to assess whether each Clearing Agency’s stress-testing components appropriately determine the sufficiency of the Clearing Agency’s prefunded-financial resources.\textsuperscript{43} The Framework would state that such analysis may occur more frequently than monthly if, for example, (i) the products cleared or markets served by a Clearing Agency display high volatility or become less liquid, or (ii) the size or concentration of positions held by the applicable Clearing Agency’s members increases significantly.\textsuperscript{44}

The Framework would state that the results of the analysis are reviewed monthly by the DTCC Enterprise Stress Testing Council.\textsuperscript{45} The Framework would also state that daily stress-testing results are summarized and reported monthly to the DTCC Risk Management Committee.\textsuperscript{46} Finally, the Framework would state that stress-testing

\begin{itemize}
  \item[42] Id.
  \item[43] Id.
  \item[44] Id.
  \item[45] Id.
  \item[46] Id.
\end{itemize}
methodologies and related models are subject to independent model validation on at least an annual basis.\textsuperscript{47}

E. Notice of Filing of Amendments No. 2

As proposed, the Framework did not specify the historical scenarios the Clearing Agencies would use in their stress testing. The Clearing Agencies filed Amendments No. 2 to clarify that, at a minimum, the Clearing Agencies would use certain specific historical scenarios.

\footnotesize{\textsuperscript{47} Id.}
III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. After carefully considering the Proposed Rule Changes, the Commission finds that the Proposed Rule Changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to the Clearing Agencies. In particular, the Commission believes the proposal is consistent with Section 17A(b)(3)(F) of the Act, as well as Rule 17Ad-22(e)(4) thereunder.

A. Consistency with Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a registered clearing agency be designed to promote prompt and accurate clearance and settlement, and assure the safeguarding of securities and funds which are in the custody or control of the Clearing Agencies or for which they are responsible.

As described above, the Framework would describe (i) the sources of each Clearing Agency’s total prefunded-financial resources; (ii) the Clearing Agencies’ stress-testing methodologies; (iii) the Clearing Agencies’ stress-testing governance and execution processes; and (iv) the Clearing Agencies’ model-validation practices. Moreover, the Framework would describe the Clearing Agencies’ stress testing practices

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50 17 CFR 240.17Ad-22(e)(4).
in a clear and comprehensive manner. Therefore, the Framework could help improve the Clearing Agencies’ ability to determine and evaluate the credit risk presented by Clearing Agencies’ members by testing (i) the sufficiency of their credit resources in a variety of extreme but plausible scenarios, and (ii) the potential losses to the Clearing Agencies from a participant default.

The improved ability to evaluate credit risk could enable the Clearing Agencies to deploy their risk-management tools more effectively to manage the credit and market presented by such members. Through such preparation, the Framework could decrease the possibility of a member default. By enabling the Clearing Agencies to use their risk-management tools to monitor its credit and market more effectively, the proposed Framework is designed to help mitigate the risk that the Clearing Agencies and their non-defaulting members would suffer a loss from a member default.

Therefore, the Commission finds that the proposed rule changes are designed to help promote prompt and accurate clearance and settlement, and assure the safeguarding of securities and funds which are in the custody or control of the Clearing Agencies or for which they are responsible, consistent with Section 17A(b)(3)(F) of the Act.52

B. Consistency with Rule 17Ad-22(e)(4)(i), (iii), (iv), (v), and (vi)

Rule 17Ad-22(e)(4) under the Act requires, in part, that the Clearing Agencies establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage their credit exposures to participants and those arising from its payment, clearing, and settlement processes.53

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Specifically, Rule 17Ad-22(e)(4)(i) under the Act requires that a covered clearing agency maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. As described above, the descriptions in the Framework, both individually and collectively, are designed by the Clearing Agencies to evaluate the credit exposure presented by many of the Clearing Agencies’ members. The Clearing Agencies would construct comprehensive and relevant sets of extreme but plausible historical and hypothetical stress scenarios for the identified risk drivers. The Clearing Agencies would also calculate the risk metrics of each Clearing Agency’s actual portfolio to estimate the P&L of resolving a participant default over a suitable stressed period of risk, deficiencies, and coverage ratios. Thus, the Framework would help the Clearing Agencies to determine the financial resources necessary to cover their credit exposure, as applicable, with a high degree of confidence, consistent with Rule 17Ad-22(e)(4)(i).

Rule 17Ad-22(e)(4)(iii) under the Act requires that, to the extent not already maintained pursuant to Rule 17Ad-22(e)(4)(i) under the Act, the Clearing Agencies maintain additional financial resources that, at minimum, enable them to cover a wide range of foreseeable stress scenarios that include, but are not limited to, the default of the participant family that would potentially cause the largest aggregate credit exposure for the covered clearing agency in extreme but plausible market conditions.

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54 17 CFR 240.17Ad-22(e)(4)(i).
55 Id.
56 Id.
57 17 CFR 240.17Ad-22(e)(4)(iii).
As described above, the Framework would describe how the Clearing Agencies have developed and carried out a credit-risk management strategy to (i) maintain prefunded financial resources to comply with a Cover One Requirement; (ii) test the sufficiency; (iii) provide governance for the testing; and (iv) validate the testing models for the requirement. The Framework would also describe how each Clearing Agency tests the sufficiency of its prefunded resources daily to support compliance with this requirement. Such testing could better enable the Clearing Agencies to determine their respective Cover One Requirement in extreme but plausible scenarios by determining the impact of member defaults in various scenarios. With this identification of Cover One Requirement, the Clearing agencies could size their margin requirements to maintain their Cover One Requirement. Thus, the Commission believes the Proposed Rule Changes are consistent with Rule 17Ad-22(e)(4)(iii).  

Rule 17Ad-22(e)(4)(iv) under the Act requires that a covered clearing agency include prefunded financial resources, exclusive of assessments for additional guaranty fund contributions or other resources that are not prefunded, when calculating financial resources available to meet the standards under Rule 17Ad-22(e)(4)(i) through (iii) under the Act, as applicable. Because the credit risks and prefunded-financial resources of each Clearing Agency differ, the Framework would describe the prefunded-financial resources and related stress-testing methodologies of the Clearing Agencies separately.

With respect to FICC and NSCC, the Framework would describe the prefunded-financial resources are their respective clearing funds, containing deposits from their

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58 Id.

members of both cash and eligible securities. With respect to DTC, the Framework would describe that its prefunded-financial resources are cash deposits to its Participants Fund. The Framework would also describe that DTC may use its risk management control, the Collateral Monitor, to help monitor and ensure that the settlement obligations of each member are fully collateralized. Such identification is designed to meet the financial resources availability requirements under Rule 17Ad-22(e)(4)(i) and (iii). Therefore, the Commission believes the Framework is consistent with Rule 17Ad-22(e)(4)(iv) under the Act.  

Rule 17Ad-22(e)(4)(v) under the Act requires that the Clearing Agencies maintain the financial resources under Rule 17Ad-22(e)(4)(iii) under the Act, in combined or separately maintained clearing or guaranty funds.  As described above, the Framework would identify the sources of prefunded resources to comply with each Clearing Agency’s Cover One Requirement. The Framework would require NSCC and FICC to maintain those prefunded sources in their respective clearing funds. The Framework also would require DTC to maintain its prefunded sources in its Participants Fund. Thus, the Commission believes the Framework is consistent with Rule 17Ad-22(e)(v) under the Act.  

Rule 17Ad-22(e)(4)(vi)(A) under the Act requires that a covered clearing agency test the sufficiency of its total financial resources available to meet the minimum financial resource requirements under Rule 17Ad-22(e)(4)(i) through (iii) under the Act by

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60 Id.
62 Id.
conducting stress testing of its total financial resources daily using standard 
predetermined parameters and assumptions. As described above, the Framework would 
describe the Clearing Agencies’ stress-testing methodologies and validation. 
Specifically, the Framework would state how the Clearing Agencies would conduct stress 
tests on a daily basis, and the three risk components the Clearing Agencies would use for 
the stress testing methodologies for these tests. Likewise, the Framework would describe 
how the stress testing methodologies are developed through risk identification, scenario 
development, and risk measurement and aggregation. Therefore, the Commission 
believes the Framework is consistent with Rule 17Ad-22(e)(4)(vi)(A) under the Act. 

Rule 17Ad-22(e)(4)(vi)(B) under the Act requires that a covered clearing agency 
test the sufficiency of its total financial resources available to meet the minimum financial 
resource requirements under Rule 17Ad-22(e)(4)(i) through (iii) under the Act by 
conducting a comprehensive analysis on at least a monthly basis of the existing stress 
testing scenarios, models, and underlying parameters and assumptions, and consider 
modifications to ensure they are appropriate for determining the covered clearing 
agency’s required level of default protection in light of current and evolving market 
conditions.

As described above, the Framework, with respect to model validation, would state 
that the stress-testing methodologies are reviewed and analyzed monthly to determine if 
the components continue to be appropriate for determining sufficiency of the Clearing
Agencies’ prefunded financial resources. The analysis would be performed at least monthly and would be conducted to assess whether each Clearing Agency’s stress-testing components appropriately determine the sufficiency of the Clearing Agency’s prefunded-financial resources.\textsuperscript{66} The Framework would state that such analysis may occur more frequently than monthly if, for example, (i) the products cleared or markets served by a Clearing Agency display high volatility or become less liquid, or (ii) the size or concentration of positions held by the applicable Clearing Agency’s members increases significantly. The Framework also would state that the results of the analysis are reviewed monthly by the DTCC Enterprise Stress Testing Council. For these reasons, the Commission believes the Framework is consistent with Rule 17Ad-22(e)(4)(vi)(B) under the Act.\textsuperscript{67}

Rule 17Ad-22(e)(4)(vi)(C) under the Act requires that a covered clearing agency test the sufficiency of its total financial resources available to meet the minimum financial resource requirements under Rule 17Ad-22(e)(4)(i) through (iii) under the Act by conducting a comprehensive analysis of stress testing scenarios, models, and underlying parameters and assumptions more frequently than monthly when the products cleared or markets served display high volatility or become less liquid, or when the size or concentration of positions held by the covered clearing agency’s members increases significantly.\textsuperscript{68}

\begin{itemize}
\item \textsuperscript{66} Id.
\item \textsuperscript{67} Id.
\item \textsuperscript{68} 17 CFR 240.17Ad-22(e)(4)(vi)(C).
\end{itemize}
As described above, the Framework would describe that the stress-testing validations are performed at least monthly, and may occur more frequently than monthly if, for example, (i) the products cleared or markets served by a Clearing Agency display high volatility or become less liquid, or (ii) the size or concentration of positions held by the applicable Clearing Agency’s members increases significantly. The Framework also would state that the analysis is designed to assess whether each Clearing Agency’s stress-testing components are appropriate for determining the sufficiency of its prefunded financial resources in light of current and evolving market conditions. As such, the Commission believes the Framework is consistent with Rule 17Ad-22(e)(4)(vi)(C) under the Act.\(^69\)

Rule 17Ad-22(e)(4)(vi)(D) under the Act requires that a covered clearing agency test the sufficiency of its total financial resources available to meet the minimum financial resource requirements under Rule 17Ad-22(e)(4)(i) through (iii) under the Act by reporting the results of its analyses under Rule 17Ad-22(e)(4)(vi)(B) and (C) to appropriate decision makers at the covered clearing agency, including but not limited to, its risk management committee or board of directors, and use these results to evaluate the adequacy of and adjust its margin methodology, model parameters, models used to generate clearing or guaranty fund requirements, and any other relevant aspects of its credit risk management framework, in supporting compliance with the minimum financial resources requirements set forth in Rule 17Ad-22(e)(4)(i) through (iii) under the Act.\(^70\)

\(^{69}\) Id.

\(^{70}\) 17 CFR 240.17Ad-22(e)(4)(vi)(D).
As described above, the Framework would provide for stress-testing governance and model validation. To the extent the stress-testing methodology indicates a potential impact to a Clearing Agency’s Cover One Requirement, the Framework would describe the threshold parameters that would results in the Clearing Agency escalating internally and analyzing to determine if (i) there is a need to adjust the stress-testing methodology, or (ii) the threshold breach indicates an issue with a particular member. Additionally, the model validation description in the Framework would state that the results of the stress-testing methodologies are reviewed monthly by the DTCC Enterprise Stress Testing Council. The Framework also would state that the DTCC Enterprise Stress Testing Council would consider the results in evaluating the adequacy of the stress-testing methodologies and would determine if adjustments to the stress-testing methodologies are appropriate to support the Clearing Agencies’ compliance with the minimum financial resources requirements set forth in Rule 17Ad-22(e)(4)(i) through (iii) under the Act.

The Framework also would state that daily stress testing results are summarized and reported monthly to the DTCC Risk Management Committee. Based on its review of the information provided, the committee may determine to inform or further escalate any concerns to the Risk Committees of the Boards, as it deems necessary. Therefore, the Commission believes that the Framework is consistent with Rule 17Ad-22(e)(vi)(D) under the Act.\footnote{Id.}

Rule 17Ad-22(e)(4)(vii) under the Act requires a covered clearing agency to perform a model validation for its credit risk models not less than annually or more frequently as may be contemplated by the covered clearing agency’s risk management
framework established pursuant to Rule 17Ad-22(e)(3) under the Act.\(^\text{72}\) As described above, the model validation portion of the Framework would provide that the Clearing Agencies’ stress-testing methodologies and models are subject to independent model validation on at least an annual basis. Therefore, the Commission believes that the Framework is consistent with Rule 17Ad-22(e)(4)(vii) under the Act.\(^\text{73}\)

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether these filings, as modified by Amendments No. 2, 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. Please include File Number SR-DTC-2017-005, SR-FICC-2017-009, or SR-NSCC-2017-006 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-DTC-2017-005, SR-FICC-2017-009, or SR-NSCC-2017-006. This file number should be included on the subject line if e-mail is

\(^{72}\) 17 CFR 240.17Ad-22(e)(4)(vii).

\(^{73}\) Id.
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 filings also will be available for inspection and copying at the principal office of DTCC and on DTCC’s website (http://dtcc.com/legal/sec-rule-filings.aspx). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-DTC-2017-005, SR-FICC-2017-009, or SR-NSCC-2017-006 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. **Accelerated Approval of Proposed Rule Changes**

The Commission finds good cause, pursuant to Section 19(b)(2) of the Exchange Act,\(^\text{74}\) to approve the Proposed Rule Changes prior to the 30th day after the date of publication of Amendments No. 2 in the Federal Register. As discussed above,

Amendments No. 2 make clear which specific historical scenarios, at a minimum, the Clearing Agencies would use for stress testing.

By listing the specific historic scenarios, Amendments No. 2 provides for a more clear and comprehensive Framework, which could help improve the Clearing Agencies’ ability to determine and evaluate the credit risk presented by Clearing Agencies’ members. That improved ability could better enable the Clearing Agencies to deploy their risk-management tools more effectively to manage the credit and market presented by such members and, thus, help mitigate the risk that the Clearing Agencies and their non-defaulting members would suffer a loss from a member default.

Therefore, the Commission finds that Amendments No. 2 are designed to help assure the safeguarding of securities and funds which are in the custody or control of the Clearing Agencies or for which they are responsible, consistent with Section 17A(b)(3)(F) of the Act.75 Accordingly, the Commission finds good cause for approving the proposed rule changes, as modified by Amendments No. 2, on an accelerated basis, pursuant to Section 19(b)(2) of the Exchange Act.76

VI. Conclusion

On the basis of the foregoing, the Commission finds that the Proposed Rule Changes are consistent with the requirements of the Act, in particular the requirements of Section 17A of the Act77 and the rules and regulations promulgated thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that

76 Id.
proposed rule changes SR-DTC-2017-005, SR-FICC-2017-009, and SR-NSCC-2017-006, as modified by Amendments Nos. 1 and 2, be, and hereby are, APPROVED on an accelerated basis.\(^7\)

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.\(^9\)

Eduardo A. Aleman,

Assistant Secretary.

\(^{78}\) In approving the Proposed Rule Changes, the Commission considered the proposals’ impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

\(^{79}\) 17 CFR 200.30-3(a)(12).