

proposed Exchange Rule 7.35E(h)(3)(A) and (B) to define “previously-live orders” for Core Open Auction, Trading Halt Auction, Closing Auction, and IPO Auction and to define how unexecuted orders would be processed when the Exchange transitions from continuous trading from a prior trading session; (5) amend proposed Exchange rule 7.31E(h)(3)(A) to specify that Discretionary Pegged Orders do not participate in any auctions; (6) amend proposed Exchange Rule 7.34E(c)(1)(A) to add a provision that Discretionary Pegged Orders may not be entered before or during the Early Trading Session; (7) amend proposed Exchange Rule 7.46E to reflect recent changes to publication dates with respect to the Tick Size Pilot Plan; and (8) state that the Pillar transition is anticipated to occur in the third quarter of 2017.

The Commission believes that Amendment No. 1 does not raise novel regulatory issues and is based on, and substantively identical to, the existing rules of other self-regulatory organizations. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,<sup>112</sup> to approve the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

## VI. Conclusion

*It is therefore ordered*, that pursuant to Section 19(b)(2) of the Act, that the proposed rule change, as modified by Amendment No. 1, (SR-NYSEMKT-2017-01), be, and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority,<sup>113</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

[FR Doc. 2017-09419 Filed 5-9-17; 8:45 am]

BILLING CODE 8011-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80605; File Nos. SR-DTC-2017-802; SR-NSCC-2017-802]

### Self-Regulatory Organizations; The Depository Trust Company; National Securities Clearing Corporation; Notice of Filing of and No Objection To Advance Notices, as Modified by Amendments No. 1, To Renew the Credit Facility

May 5, 2017.

Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street

Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 (“Clearing Supervision Act”)<sup>1</sup> and Rule 19b-4(n)(1)(i) under the Securities Exchange Act of 1934 (“Act”),<sup>2</sup> notice is hereby given that on April 4, 2017 The Depository Trust Company (“DTC”) and National Securities Clearing Corporation (“NSCC,” together with DTC, “Clearing Agencies”) filed with the Securities and Exchange Commission (“Commission”) the advance notices SR-DTC-2017-802 and SR-NSCC-2017-802. On May 1, 2017, the Clearing Agencies filed Amendments No. 1 to the advance notices.<sup>3</sup> The advance notices, as modified by Amendments No. 1 (hereinafter, collectively “Advance Notices”), are 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 Advance Notices from interested persons and providing notice that the Commission does not object to the Advance Notices.

#### I. Clearing Agencies’ Statement of the Terms of Substance of the Advance Notices

These Advance Notices are filed by the Clearing Agencies in connection with their proposals to (1) renew (“Renewal”) their 364-day committed revolving credit facility (“Credit Facility”), described below, and (2) make annual renewals of the Credit Facility on substantially similar terms and conditions (“Future Renewals”), also described below, as described in greater detail below.<sup>4</sup>

#### II. Clearing Agencies’ Statement of the Purpose of, and Statutory Basis for, the Advance Notices

In their filings with the Commission, the Clearing Agencies included statements concerning the purpose of and basis for the Advance Notices and discussed any comments they received on the Advance Notices. 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 and B below, of the most significant aspects of such statements.

#### (A) Clearing Agencies’ Statement on Comments on the Advance Notices Received From Members, Participants, or Others

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

#### (B) Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

##### Description of the Proposals

*Renewal.* As part of their liquidity risk management regime, the Clearing Agencies maintain a 364-day committed revolving line of credit with a syndicate of commercial lenders, which is renewed every year. The terms and conditions of the current Renewal would be specified in the Sixteenth Amended and Restated Revolving Credit Agreement, to be dated as of May 9, 2017 (“Renewal Agreement”), among the Clearing Agencies,<sup>5</sup> the lenders party thereto, the administrative agent and the collateral agent. Such terms and conditions are substantially the same as the terms and conditions of the existing credit agreement, dated as of May 10, 2016, as heretofore amended (“Existing Agreement”),<sup>6</sup> except that pricing<sup>7</sup> and the amount of the aggregate commitment for NSCC may change. The substantive terms of the Renewal Agreement are set forth in the Summary of Indicative Principal Terms and Conditions, dated March 30, 2017, which is not a public document. The aggregate commitments being sought under the Renewal would be for an amount up to \$14 billion for NSCC and DTC together, of which all but \$1.9 billion commitment would be the

<sup>1</sup> 12 U.S.C. 5465(e)(1).

<sup>2</sup> 17 CFR 240.19b-4(n)(1)(i).

<sup>3</sup> In Amendments No. 1 to the advance notices, the Clearing Agencies request Commission approval to (i) accept \$14.075 billion in aggregate commitments for this year’s facility, and (ii) clarify that for future renewals of the credit facility, the Clearing Agencies may accept, not just seek, an aggregate commitment amount within 15 percent of \$14 billion, as discussed below.

<sup>4</sup> Terms not defined herein are defined in the Terms not defined herein are defined in 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); or Rules and Procedures of NSCC (“Rules”), 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).

<sup>5</sup> The Renewal Agreement would provide for both DTC and NSCC as borrowers, with an aggregate commitment of \$1.9 billion for DTC and the amount of any excess aggregate commitment for NSCC. The borrowers are not jointly and severally liable and each lender has a ratable commitment to each borrower. DTC and NSCC provide separate collateral to secure their respective borrowings.

<sup>6</sup> See Securities Exchange Act Release No. 77750 (April 29, 2016), 81 FR 27181 (May 5, 2016) (SR-DTC-2017-801; SR-NSCC-2016-801).

<sup>7</sup> “Pricing” of the Credit Facility refers to the charges and fees owed by the borrowers to the agents and lenders thereto with respect to the services performed by the agents, the commitment to lend and the rate of interest applicable to any borrowing under the Credit Facility, among other such matters.

<sup>112</sup> 15 U.S.C. 78s(b)(2).

<sup>113</sup> 17 CFR 200.30-3(a)(12).

aggregate commitment to NSCC as borrower, as provided in the Existing Agreement; however, the Clearing Agencies may, subject to obtaining all proper internal approvals, accept aggregate commitments under the Renewal up to \$14.075 billion.

**Future Renewals.** The Clearing Agencies expect to continue to renew the Credit Facility annually on substantially similar terms and conditions as the Renewal. The terms and conditions of all Future Renewals would be specified in subsequent credit agreements among the Clearing Agencies, the lenders party thereto, the administrative agent and the collateral agent.

In connection with all Future Renewals, the Clearing Agencies would not make changes to (a) the amount of aggregate commitment being sought for or accepted by DTC, which would continue to be \$1.9 billion; (b) the financial institution acting as administrative agent; or (c) the commitment period, which would continue to be for 364 days.

However, in connection with all Future Renewals, the Clearing Agencies may consider changes to (1) the amount of aggregate commitment being sought for and accepted by NSCC, so long as such amounts do not vary more than 15 percent either above or below the amount of aggregate commitment being sought by NSCC under the Renewal being proposed by this Advance Notice, which would be no less than \$10.285 billion and no more than \$13.915 billion;<sup>8</sup> (2) the syndicate, so long as all lenders party to future Credit Facilities are subject to the same credit review as those lenders party to the Renewal; (3) pricing and collateral haircuts,<sup>9</sup> so long as such terms are consistent with the then current market practice; or (4) representations, warranties, covenants, and terms of events of default,<sup>10</sup> so long as any modifications are immaterial to the Clearing Agencies as a borrower and do not impair the Clearing Agencies' ability to borrow under the line of credit. The Clearing Agencies would not

<sup>8</sup> NSCC believes that, given the average size of the commitments for NSCC in past Credit Facilities, a difference of no more than 15 percent, either above or below the aggregate NSCC commitment of the Renewal would not be a material change.

<sup>9</sup> "Collateral haircuts" with respect to the collateral for any borrowing under the Credit Facility refers to the schedule of percentages of market value, by type of collateral, determining the collateral value of that type of collateral, for purposes of securing a borrowing under the Credit Facility.

<sup>10</sup> "Events of default" under the Credit Facility refers to those events or conditions which trigger or constitute a default of the borrowers under the agreement (e.g., a breach of terms or conditions or a failure to perform an obligation).

consider such changes as materially altering the terms and conditions of the Credit Facility.

So long as the Clearing Agencies do not make changes to the terms described in items (a), (b), and (c) above in any Future Renewal, and so long as any Future Renewal adheres to the conditions described in items (1) through (4) above, the Clearing Agencies would consider such Future Renewal as being on substantially the same terms and conditions as the Renewal and predecessor agreements such that it would not need to be subject to the requirement to file an advance notice filing pursuant to Section 806(e)(1) of the Clearing Supervision Act.<sup>11</sup> In the event that any annual renewal of the Credit Facility is not on terms and conditions that are substantially similar to the Renewal, as specified in the paragraphs above, such renewal would be subject to an advance notice filing pursuant to Section 806(e)(1) of the Clearing Supervision Act. If the Clearing Agencies determine to address future renewals in such filing, it would include in that filing the proposed conditions to the terms of any subsequent renewals.

Expected Effect on Risks to the Clearing Agencies, Their Participants and the Market

The Renewal and Future Renewals would continue to promote the reduction of liquidity risk to the Clearing Agencies, DTC's Participants, NSCC's Members (collectively, "Members"), and the securities market in general because they would help the Clearing Agencies maintain sufficient liquidity resources to timely meet their settlement obligations with a high degree of confidence. The Renewal Agreement and its substantially similar predecessor agreements have been in place since the introduction of same day funds settlement at the Clearing Agencies, and the Clearing Agencies expect to continue to renew the Credit Facility annually pursuant to Future Renewals.

Management of Identified Risks

The Clearing Agencies require same day liquidity resources to cover the failure-to-settle of their Member, or affiliated family of Members, with the largest aggregate liquidity exposure. If a Member defaults on its end-of-day net settlement obligation, the Clearing Agencies may borrow under the Credit Facility to enable them, if necessary, to fund settlement among non-defaulting Members, including settlement of

guaranteed trades due to settle. Any NSCC borrowing would be secured principally by (i) securities deposited by NSCC Members in NSCC's Clearing Fund<sup>12</sup> (i.e., the Eligible Clearing Fund Securities, as defined in NSCC's Rules, pledged by Members to NSCC in lieu of cash Clearing Fund deposits) and (ii) securities cleared through NSCC's Continuous Net Settlement System that were intended for delivery to the defaulting Member upon payment of its net settlement obligation. In addition to the Credit Facility and the Clearing Fund, NSCC has diversified its liquidity resources by implementing a commercial paper and extendible-term note facility.<sup>13</sup> Any DTC borrowing would be secured principally by (i) securities that were intended to be delivered to the defaulting DTC Participant upon payment of its net settlement obligation and (ii) securities previously designated by the defaulting Participant as collateral.

As integral parts of NSCC's risk management structure, the Credit Facility, the commercial paper and extendible-term note facility, and the Clearing Fund, together, provide NSCC liquidity to complete end-of-day net funds settlement.

The Credit Facility is built into DTC's primary risk management controls, the Net Debit Cap<sup>14</sup> and Collateral Monitor,<sup>15</sup> which together require that

<sup>12</sup> NSCC's Clearing Fund (which operates as its default fund) addresses potential exposure through a number of risk-based component charges calculated and assessed daily and includes additional liquidity deposits by certain NSCC Members pursuant to NSCC's Supplemental Liquidity Deposits rule (NSCC's Rule 4(A)). *Supra*, note 3.

<sup>13</sup> See Securities Exchange Act Release No. 75730 (August 19, 2015), 80 FR 51638 (August 25, 2015) (SR-NSCC-2015-802).

<sup>14</sup> The Net Debit Cap risk control is designed so that DTC may complete settlement among non-defaulting DTC Participants, even if the Participant or affiliated family of Participants with the largest settlement obligation that day fails to settle. Before completing a transaction in which a Participant is the receiver, DTC calculates the effect the transaction would have on such Participant's Settlement Account, and determines whether any resulting Net Debit Balance would exceed the Participant's Net Debit Cap. Any transaction that would cause the Net Debit Balance to exceed the Net Debit Cap is placed on a pending (recycling) queue until the Net Debit Cap will not be exceeded by processing the transaction.

<sup>15</sup> DTC tracks Collateral in a DTC Participant's account through the Collateral Monitor. At all times, the Collateral Monitor reflects the amount by which the Collateral Value in the account exceeds the Net Debit Balance in the account. When processing a transaction, DTC verifies that the Collateral Monitor of each of the deliverer and receiver will not become negative when the transaction is processed. If the transaction would cause either party's Settlement Account to have insufficient collateral to support its net settlement obligation, the transaction will recycle until the

<sup>11</sup> 12 U.S.C. 5465(e)(1).

the end-of-day net funds settlement obligation of a DTC Participant cannot exceed DTC's liquidity resources and is fully collateralized.

The Credit Facility is a cornerstone of the Clearing Agencies' risk management and both the Renewal and Future Renewals are critical to the Clearing Agencies' risk management infrastructure. Because the Renewal would preserve substantially similar terms and conditions to the Existing Agreement, and Future Renewals would preserve substantially similar terms and conditions to the Renewal Agreement, the Clearing Agencies believe that the Renewal and Future Renewals would not otherwise affect or alter the management of risk at the Clearing Agencies.

#### Consistency With the Clearing Supervision Act

The Clearing Agencies believe the Renewal and Future Renewals are consistent with Section 805(b) of the Clearing Supervision Act.<sup>16</sup> The objectives and principles of Section 805(b) of the Clearing Supervision Act are the promotion of robust risk management, promotion of safety and soundness, reduction of systemic risks, and support of the stability of the broader financial system.<sup>17</sup> The Clearing Agencies believe that the Renewal and Future Renewals would promote these objectives and principles because they would provide the Clearing Agencies with a continuing source of committed liquidity to meet its settlement obligations and thus mitigate the Clearing Agencies' liquidity risk. Therefore, the Clearing Agencies believe the Renewal and Future Renewals are consistent with Section 805(b) of the Clearing Supervision Act.<sup>18</sup>

The Clearing Agencies believe the Renewal and Future Renewals are also consistent with Rule 17Ad-22(b)(3),<sup>19</sup> Rule 17Ad-22(d)(11),<sup>20</sup> and Rule 17Ad-22(e)(7) under the Act.<sup>21</sup>

Rule 17Ad-22(b)(3) requires, in part, that central counterparties, like NSCC,

to "establish, implement, maintain and enforce written policies and procedures reasonably designed to . . . [m]aintain sufficient financial resources to withstand, at a minimum, a default by the participant family to which it has the largest exposure in extreme but plausible market conditions . . . ." <sup>22</sup> NSCC believes that the Renewal and Future Renewals are consistent with Rule 17Ad-22(b)(3) because they would help NSCC maintain sufficient financial resources to withstand, at a minimum, a default by a NSCC Member to which NSCC has the largest exposure.<sup>23</sup>

Rule 17Ad-22(d)(11)<sup>24</sup> requires that the Clearing Agencies, "establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable . . . establish default procedures that ensure that the clearing agency can take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of a participant default." The Clearing Agencies believe the Renewal and Future Renewals are consistent with Rule 17Ad-22(d)(11)<sup>25</sup> because they would provide the Clearing Agencies with a readily available liquidity resource that would enable the Clearing Agencies to continue to meet its obligations in a timely fashion, in the event of a Member default, thereby helping to contain losses and liquidity pressures from that default.

Rule 17Ad-22(e)(7), which was recently adopted by the Commission, will require, in part, that the Clearing Agencies "effectively measure, monitor, and manage the liquidity risk that arises in or is borne by [it], including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by . . . [m]aintaining sufficient liquid resources at the minimum in all relevant currencies to effect same-day . . . settlement of payment obligations with a high degree of confidence under a wide range of foreseeable stress scenarios that includes, but is not limited to, the default of the participant family that would generate the largest aggregate payment of obligation for [each Clearing Agency] in extreme but plausible conditions."<sup>26</sup> The Renewal and Future Renewals would provide NSCC with an additional liquidity resource that, together with its other sources of liquidity, including the Clearing Fund

and the commercial paper and extendible-term note facility, can be used to complete end of day money settlement in the event a failure of a Member, including the failure of the participant family that would generate the largest aggregate payment of obligation for NSCC in extreme but plausible conditions. The Renewal and Future Renewals would provide DTC with an additional liquidity resource to enable it to complete system-wide settlement notwithstanding the failure-to-settle of a Participant or affiliated family of Participants with the largest net settlement obligation. In this way, the Renewal and Future Renewals are consistent with Rule 17Ad-22(e)(7).<sup>27</sup>

#### III. Date of Effectiveness of the Advance Notices, and Timing for Commission Action

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date that the proposed change was filed with the Commission or (ii) the date that any additional information requested by the Commission is received. The Clearing Agencies shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission providing the Clearing Agencies with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the Advance Notices are filed, or the date further information requested by the Commission is received, if the Commission notifies the Clearing Agencies in writing that it does not object to the proposed change and authorizes the Clearing Agencies to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

The Clearing Agencies shall post notice on their Web site of proposed changes that are implemented.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the Advance Notices are consistent with the Clearing Supervision Act. Comments may be submitted by any of the following methods:

deficient account has sufficient Collateral to proceed or until the applicable cutoff time occurs.

<sup>16</sup> 12 U.S.C. 5464(b).

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

<sup>19</sup> 17 CFR 240.17Ad-22(b)(3).

<sup>20</sup> 17 CFR 240.17Ad-22(d)(11).

<sup>21</sup> 17 CFR 240.17Ad-22(e)(7). The Commission adopted amendments to Rule 17Ad-22, including the addition of new section 17Ad-22(e), on September 28, 2016. See Securities Exchange Act Release No. 78961 (September 28, 2016), 81 FR 70786 (October 13, 2016) (S7-03-14). NSCC and DTC are "covered clearing agencies" as defined by new Rule 17Ad-22(a)(5) and must comply with new subsection (e) of Rule 17Ad-22 by April 11, 2017.

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

<sup>23</sup> *Id.*

<sup>24</sup> 17 CFR 240.17Ad-22(d)(11).

<sup>25</sup> *Id.*

<sup>26</sup> 17 CFR 240.17Ad-22(e)(7).

<sup>27</sup> *Id.*

*Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-DTC-2017-802 or SR-NSCC-2017-802 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-2017-802 or SR-NSCC-2017-802. One of these file numbers should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the Advance Notices that are filed with the Commission, and all written communications relating to the Advance Notices 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 Web site 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 the Clearing Agencies and on DTCC's Web site (<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-2017-802 or SR-NSCC-2017-802 and should be submitted on or before May 31, 2017.

**V. Commission Findings and Notice of No Objection**

Although the Clearing Supervision Act does not specify a standard of review for an advance notice, its stated purpose is instructive: To mitigate systemic risk in the financial system and promote financial stability by, among other things, promoting uniform risk management standards for systemically important financial market

utilities and strengthening the liquidity of systemically important financial market utilities.<sup>28</sup> Section 805(a)(2) of the Clearing Supervision Act<sup>29</sup> authorizes the Commission to prescribe risk management standards for the payment, clearing, and settlement activities of designated clearing entities and financial institutions engaged in designated activities for which it is the supervisory agency or the appropriate financial regulator. Section 805(b) of the Clearing Supervision Act<sup>30</sup> states that the objectives and principles for the risk management standards prescribed under Section 805(a) shall be to:

- Promote robust risk management;
- promote safety and soundness;
- reduce systemic risks; and
- support the stability of the broader financial system.<sup>31</sup>

The Commission has adopted risk management standards under Section 805(a)(2) of the Act<sup>32</sup> and Section 17A of the Act ("Rule 17Ad-22").<sup>33</sup> The Rule 17Ad-22 requires registered clearing agencies to establish, implement, maintain, and enforce written policies and procedures that are reasonably designed to meet certain minimum requirements for their operations and risk management practices on an ongoing basis.<sup>34</sup> Therefore, it is appropriate for the Commission to review changes proposed in advance notices against Rule 17Ad-22 and the objectives and principles of these risk management standards as described in Section 805(b) of the Clearing Supervision Act.<sup>35</sup> The Commission believes the proposal in the Advance Notices is consistent with the objectives and principles described in Section 805(b) of the Act,<sup>36</sup> and in Rule 17Ad-22, in particular, Rule 17Ad-22(e)(7) under the Act.<sup>37</sup>

*A. Consistency With Section 805(b) of the Clearing Supervision Act*

As discussed below, the Commission believes that the changes proposed in the Advance Notice are consistent with Section 805(b) of the Clearing Supervision Act because they (i) promote robust risk management; (ii) are consistent with promoting safety and soundness; and (iii) are consistent with reducing systemic risks and promoting

the stability of the broader financial system.

The Commission believes that the changes proposed in the Advance Notices are consistent with promoting robust risk management, in particular management of liquidity risk presented to the Clearing Agencies. Renewing and maintaining the currently proposed credit facility in the manner proposed by the Clearing Agencies would diversify the liquidity resources that the Clearing Agencies may use to resolve a Member default. Additionally, allowing the Clearing Agencies annually to renew the credit facility under certain specified circumstances without an additional advance notice, subject to the specific conditions described above (the "Evergreen" provisions), would provide the Clearing Agencies and market participants with greater certainty regarding a continuing source of committed liquidity to meet its settlement obligations and thus mitigate the Clearing Agencies' liquidity risk. Further, because the Evergreen provisions would ensure that any such annual renewals would be substantially similar to the currently proposed credit facility, the Commission believes that any such renewals would promote robust risk management by diversifying the liquidity resources that the Clearing Agencies may use to resolve a Member default in the same manner as the currently proposed credit facility. As such, the Commission believes that the proposal would promote robust risk management practices at the Clearing Agencies, consistent with Section 805(b) of the Clearing Supervision Act.<sup>38</sup>

The Commission also believes that the changes proposed in the Advance Notices are consistent with promoting safety and soundness. As described above, the currently proposed credit facility would provide the Clearing Agencies with an additional liquidity resource in the event of a Member default. This liquidity would promote safety and soundness for Members because it would provide the Clearing Agencies with a readily available liquidity resource that would enable them to continue to meet their respective obligations in a timely fashion in the event of a Member default, thereby helping to contain losses and liquidity pressures from that default. Because the Evergreen provisions would ensure that any annual renewals implemented without filing an advance notice would be substantially similar to the currently proposed credit facility, any such annual renewals would promote safety

<sup>28</sup> 12 U.S.C. 5461(b).

<sup>29</sup> 12 U.S.C. 5464(a)(2).

<sup>30</sup> 12 U.S.C. 5464(b).

<sup>31</sup> *Id.*

<sup>32</sup> 12 U.S.C. 5464(a)(2).

<sup>33</sup> See 17 CFR 240.17Ad-22.

<sup>34</sup> *Id.*

<sup>35</sup> 12 U.S.C. 5464(b).

<sup>36</sup> *Id.*

<sup>37</sup> 17 CFR 240.17Ad-22(e)(7).

<sup>38</sup> 12 U.S.C. 5464(b).

and soundness for the same reasons. As such, the Commission believes it is consistent with promoting safety and soundness as contemplated in Section 805(b) of the Clearing Supervision Act.<sup>39</sup>

In addition, the Commission believes that the proposal contained in the Advance Notices is consistent with reducing systemic risks and promoting the stability of the broader financial system. As mentioned above, allowing the Clearing Agencies to enter into the currently proposed credit facility would enable the Clearing Agencies, each of which has been designated a systemically important financial market utility,<sup>40</sup> to maintain an additional liquidity resource that the Clearing Agencies may access to help manage a Member default. In addition, because the Evergreen provisions would ensure that any annual renewals entered into without filing an advance notice would be on substantially similar terms to the currently proposed credit facility, such future renewals also would enable the Clearing Agencies to maintain an additional liquidity resource that the Clearing Agencies may access to help manage a Member default. Moreover, allowing the annual renewal of the credit facility under the proposed Evergreen provisions without filing an additional advance notice would reduce the risk of gaps in availability of this liquidity resource. Further, allowing renewal without an advance notice in these specific circumstances would also provide heightened certainty and stability for the Clearing Agencies and market participants regarding the availability of this liquidity risk management resource on an ongoing basis. Accordingly, the Commission believes that the proposal would help to reduce the systemic risk of the Clearing Agencies, which in turn would help to support the stability of the broader financial system, consistent with Section 805(b) of the Clearing Supervision Act.<sup>41</sup>

#### *B. Consistency With Rule 17Ad-22(e)(7)*

The Commission believes that the changes proposed by the Advance Notices are consistent with the requirements of Rules 17Ad-22(e)(7) under the Act.<sup>42</sup> Rule 17Ad-22(e)(7) requires the Clearing Agencies to

establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage liquidity risk that arises in or is borne by the Clearing Agencies, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity, as specified in the rule.<sup>43</sup>

In particular, Rule 17Ad-22(e)(7)(i) under the Act<sup>44</sup> requires that registered clearing agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to “effectively measure, monitor, and manage the liquidity risk that arises in or is borne by [it], including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by . . . [m]aintaining sufficient liquid resources at the minimum in all relevant currencies to effect same-day . . . settlement of payment obligations with a high degree of confidence under a wide range of foreseeable stress scenarios that includes, but is not limited to, the default of the participant family that would generate the largest aggregate payment of obligation for [each Clearing Agency] in extreme but plausible conditions.”

As described above, the currently proposed credit facility would provide the Clearing Agencies with a readily available liquidity resource that would enable them to continue to meet their respective obligations in a timely fashion in the event of a Member default, thereby helping to contain losses and liquidity pressures from that default. Additionally, because the Evergreen provisions would ensure that any annual renewals would be substantially similar to the currently proposed credit facility, such renewals also would provide the Clearing Agencies with a readily available liquidity resource that would enable them to continue to meet their respective obligations in a timely fashion in the event of a Member default, thereby helping to contain losses and liquidity pressures from that default. Moreover, allowing the Clearing Agencies annually to renew the credit facility pursuant to the proposed Evergreen provisions without filing an additional advance notice would reduce the risk of gaps in liquidity coverage and better allow the Clearing Agencies to continually maintain sufficient liquidity resources. Therefore, the

Commission believes that the proposal is consistent with Rule 17Ad-22(e)(7)(i).

Rule 17Ad-22(e)(7)(ii) under the Act requires the Clearing Agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to hold qualifying liquid resources sufficient to satisfy payment obligations owed to clearing members.<sup>45</sup> Rule 17Ad-22(a)(14) of the Act defines “qualifying liquid resources” to include, among other things, lines of credit without material adverse change provisions, that are readily available and convertible into cash.<sup>46</sup> As described above, the currently proposed credit facility would permit the Clearing Agencies to enter into a single credit facility designed to help ensure that the Clearing Agencies have sufficient, readily-available qualifying liquid resources to meet the cash settlement obligations of their largest family of affiliated members. Similarly, because the Evergreen provisions would ensure that any annual renewals would be substantially similar to the currently proposed credit facility, such renewals also would permit the Clearing Agencies to enter into a single credit facility designed to help ensure that the Clearing Agencies have sufficient, readily-available qualifying liquid resources to meet the cash settlement obligations of their largest family of affiliated members. Therefore, the Commission believes that the proposal is consistent with Rule 17Ad-22(e)(7)(ii).

#### **VI. Conclusion**

*It is therefore noticed*, pursuant to Section 806(e)(1)(I) of the Clearing Supervision Act,<sup>47</sup> that the Commission does not object to the Advance Notices SR-DTC-2017-802 and SR-NSCC-2017-802 and that DTC and NSCC be and hereby are authorized to implement the change as of the date of this notice.

By the Commission.

**Eduardo A. Aleman,**

*Assistant Secretary.*

[FR Doc. 2017-09459 Filed 5-9-17; 8:45 am]

**BILLING CODE 8011-01-P**

<sup>39</sup> *Id.*

<sup>40</sup> The Financial Stability Oversight Council designated NSCC a systemically important financial market utility on July 18, 2012. See Financial Stability Oversight Council 2012 Annual Report, Appendix A, <http://www.treasury.gov/initiatives/fsoc/Documents/2012%20Annual%20Report.pdf>.

<sup>41</sup> *Id.*

<sup>42</sup> 17 CFR 240.17Ad-22(e)(7).

<sup>43</sup> *Id.*

<sup>44</sup> 17 CFR 240.17Ad-22(e)(7)(i).

<sup>45</sup> 17 CFR 240.17Ad-22(e)(7)(ii).

<sup>46</sup> 17 CFR 240.17Ad-22(a)(14).

<sup>47</sup> 12 U.S.C. 5465(e)(1)(I).