

Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. 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-LTSE-2020-08, and should be submitted on or before April 24, 2020.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³²

J. Matthew DeLesDernier,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-88514; File No. SR-NSCC-2020-007]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Revise the Clearing Agency Investment Policy

March 30, 2020

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 26, 2020, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. NSCC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ The

³² 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change would revise the Clearing Agency Investment Policy ("Investment Policy") of NSCC and its affiliates, The Depository Trust Company ("DTC") and Fixed Income Clearing Corporation ("FICC," and together with DTC and NSCC, the "Clearing Agencies") in order to (1) include the proceeds of the issuance of term debt by NSCC as part of the description of "Default Liquidity Funds" within the section for "Investable Funds"; (2) clarify the allowable investments for DTC's Participants Fund;⁵ and (3) enhance the description of collateral that may be posted in connection with investments in reverse repurchase agreements; as described in greater detail below.

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

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Clearing Agencies are proposing to revise the Investment Policy, which was adopted for each clearing agency in December 2016⁶ and is maintained in compliance with Rule 17Ad-22(e)(16)

⁵ The respective Clearing Funds of NSCC and FICC, and the DTC Participants Fund are described in the Rules & Procedures of NSCC ("NSCC Rules"), the DTC Rules, By-laws and Organization Certificate ("DTC Rules"), the Clearing Rules of the Mortgage-Backed Securities Division of FICC ("MBSD Rules") and the Rulebook of the Government Securities Division of FICC ("GSD Rules"), respectively, available at <http://dtcc.com/legal/rules-and-procedures>. See Rule 4 (Clearing Fund) of the NSCC Rules, Rule 4 (Participants Fund and Participants Investment) of the DTC Rules, Rule 4 (Clearing Fund and Loss Allocation) of the GSD Rules and Rule 4 (Clearing Fund and Loss Allocation) of the MBSD Rules.

⁶ See Securities Exchange Act Release No. 79528 (December 12, 2016), 81 FR 91232 (December 16, 2016) (SR-DTC-2016-007, SR-FICC-2016-005, SR-NSCC-2016-003).

under the Act,⁷ in order to (1) include the proceeds of the issuance of term debt by NSCC as part of the description of "Default Liquidity Funds" within the section for "Investable Funds"; (2) clarify the allowable investments for DTC's Participants Fund; and (3) enhance the description of collateral that may be posted in connection with investments in reverse repurchase agreements; as described in greater detail below.

Overview of the Investment Policy

The Investment Policy governs the management, custody and investment of cash deposited to the respective NSCC and FICC Clearing Funds, and the DTC Participants Fund, the proprietary liquid net assets (cash and cash equivalents) of the Clearing Agencies, and other funds held by the Clearing Agencies pursuant to their respective rules.

The Investment Policy identifies the guiding principles for investments and defines the roles and responsibilities of DTCC staff in administering the Investment Policy pursuant to those principles. The Investment Policy is co-owned by DTCC's Treasury group ("Treasury")⁸ and the Counterparty Credit Risk team ("CCR") within DTCC's Group Chief Risk Office ("GCRO").⁹ Treasury is responsible for identifying potential counterparties to investment transactions, establishing and managing investment relationships with approved investment counterparties, and making and monitoring all investment transactions with respect to the Clearing Agencies. CCR is responsible for conducting a credit review of any potential counterparty, updating those reviews on a quarterly basis, and establishing an investment limit for each counterparty.

The Investment Policy also identifies sources of funds that may be invested, and the permitted investments of those funds, including the authority required to make such investments and the parameters of, and limitations on, each type of investment. Allowable investments include bank deposits, reverse repurchase agreements, direct obligations of the U.S. government,

⁷ 17 CFR 240.17Ad-22(e)(16). As discussed in this filing, the Investment Policy also addresses compliance with the requirements of the Rule 17Ad-22(e)(3). 17 CFR 240.17Ad-22(e)(3).

⁸ Treasury is a part of the DTCC Finance Department and is responsible for the safeguarding, investment and disbursement of funds on behalf of the Clearing Agencies and in accordance with the principles outlined in the Investment Policy.

⁹ Among other responsibilities, GCRO is generally responsible for the systems and processes designed to identify and manage credit, market and liquidity risks to the Clearing Agencies.

money market mutual funds, high-grade corporate debt, and hedge transactions. Finally, the Investment Policy defines the approval authority required to exceed established investment limits.

Proposed Revisions to the Investment Policy

The Investment Policy is reviewed and approved by the Boards annually. In connection with the most recent annual review of the Investment Policy and in order to reflect recent changes to NSCC's default liquidity funds, the Clearing Agencies have decided to propose certain revisions and updates. These proposed revisions, described in greater detail below, are designed to update the Investment Policy and help ensure that it reflects the Clearing Agencies' practices related to investments of funds.

1. Include Additional NSCC Default Liquidity in Table of Investable Funds

First, the Clearing Agencies are proposing to amend the table of investable funds in Section 5 of the Investment Policy to include proceeds from the issuance of term debt by NSCC in the description of NSCC's default liquidity funds.

This table identifies the sources of investable funds that are invested by the Clearing Agencies, and groups these sources of funds into separate categories. One of the categories of investable funds is the default liquidity funds of NSCC, which is currently described as including the proceeds from the issuance of commercial paper and extendible notes. NSCC recently proposed to raise additional prefunded default liquidity through the periodic issuance and private placement of term debt.¹⁰ The investment of these funds would be governed by the Investment Policy.

The proposed change to the Investment Policy would include proceeds from the issuance of term debt in this category of "Investable Funds" to reflect the recent effectiveness of NSCC's proposal.¹¹

2. Clarify Allowable Investments for DTC's Participants Fund

Second, the Clearing Agencies are proposing to make two revisions to the Investment Policy to clarify how DTC's Participants Fund may be invested. It has historically been DTC's practice to invest its Participants Fund in cash deposit accounts only, so that the funds

are available for same-day access and settlement.

The Clearing Agencies are proposing to update the Investment Policy to more clearly reflect this practice. First, the Clearing Agencies are proposing to amend the table of allowable investments in Section 6.1 of the Investment Policy to include a separate column to identify the DTC Participants Fund, and show these funds as being available for investment only in bank deposits, including DTC's cash deposit account at the Federal Reserve Bank of New York. Currently, the DTC Participants Fund is included in the same column as the NSCC and FICC Clearing Funds, which may also be invested in other investment types. Therefore, as currently written, this table indicates that DTC's Participants Fund may also be invested in those other investment types. The proposed change to create a separate column for DTC's Participants Fund would more clearly identify the allowable investments of these funds.

Also, the Clearing Agencies are proposing to amend Section 6.2.1 of the Investment Policy, which describes the limits on investments in bank deposits, to explicitly state that DTC's Participants Fund may only be invested in demand deposit, savings or checking bank accounts that provide same day access to funds. This proposed change would clearly identify the limits on investments of DTC's Participants Fund in certain types of bank deposits.

The proposed changes would improve the Investment Policy by more clearly identifying DTC's practice with respect to the investment of its Participants Fund deposits.

3. Enhance Description of Collateral Related to Reverse Repurchase Agreements

Finally, the Clearing Agencies are proposing to amend Section 6.2.2 of the Investment Policy, which describes investment limits on investments in reverse repurchase agreements. The proposed changes would include additional detail to more clearly describe the collateral that may be posted by a counterparty in connection with these investments and to identify the required haircuts on such collateral.

More specifically, in these arrangements, where the Clearing Agencies are the purchaser of securities, the counterparty to the transaction delivers to the custodian collateral (either securities or cash). Currently, the Investment Policy states that securities posted as collateral must have a market value equal to 102% or greater of the cash invested. The proposed changes to

the Investment Policy would further state that U.S. Treasury securities, U.S. agency securities and agency mortgage-backed securities posted as collateral must have a two percent haircut; and cash posted as collateral shall have no haircut, because cash does not carry any associated market risk that could lead to a change in collateral value.

The proposed changes would improve the Investment Policy by more clearly describing the limits applicable to these types of investments.

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 proposed modifications to the Investment Policy are consistent with Section 17A(b)(3)(F) of the Act¹² and Rule 17Ad-22(e)(16) under the Act,¹³ for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of each of the Clearing Agencies be designed to assure the safeguarding of securities and funds which are in the custody or control of each of the Clearing Agencies or for which they are responsible.¹⁴ The investment guidelines and governance procedures set forth in the Investment Policy are designed to safeguard funds which are in the custody or control of the Clearing Agencies or for which they are responsible. Such protections include, for example, following a prudent and conservative investment philosophy that places the highest priority on maximizing liquidity and risk avoidance. The Clearing Agencies believe each of these proposed changes would help facilitate the effective execution of the Investment Policy pursuant to the guiding principles set forth therein. Therefore, the Clearing Agencies believe the proposed changes would allow the Clearing Agencies to continue to operate the Investment Policy pursuant to a prudent and conservative investment philosophy that assures the safeguarding of securities and funds which are in their custody and control, or for which they are responsible.

First, the proposed change to include proceeds from NSCC's issuance of term debt in the table of "Investable Funds" would make investments of these funds subject to the guidelines and restrictions set forth in the Investment Policy, and,

¹⁰ See Securities Exchange Act Release No. 88146 (February 7, 2020), 85 FR 8046 (February 12, 2020) (SR-NSCC-2019-802).

¹¹ *Id.*

¹² 15 U.S.C. 78q-1(b)(3)(F).

¹³ 17 CFR 240.17Ad-22(e)(16).

¹⁴ 15 U.S.C. 78q-1(b)(3)(F).

therefore, would assure the safeguarding of these funds.

Second, the proposed changes to clarify the allowable investments for DTC's Participants Fund and enhance the description of restrictions applicable to investments in reverse repurchase agreements would improve the clarity and accuracy of the Investment Policy. By creating clearer descriptions, the Clearing Agencies believe these proposed changes would make the Investment Policy more effective in governing the management, custody, and investment of funds of and held by the Clearing Agencies.

For the reasons described above, the Clearing Agencies believe the proposed changes would improve the effectiveness of the Investment Policy and allow the Investment Policy to continue to be administered in alignment with the investment guidelines and governance procedures set forth therein. Given that such guidelines and governance procedures are designed to safeguard funds which are in the custody or control of the Clearing Agencies or for which they are responsible, the Clearing Agencies believe the proposed changes are consistent with the requirements of Section 17A(b)(3)(F) of the Act.¹⁵

Rule 17Ad-22(e)(16) under the Act requires the Clearing Agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to safeguard the Clearing Agencies' own and their participants' assets, minimize the risk of loss and delay in access to these assets, and invest such assets in instruments with minimal credit, market, and liquidity risks.¹⁶

The Clearing Agencies believe that the Investment Policy follows a prudent and conservative investment philosophy, placing the highest priority on maximizing liquidity and avoiding risk of loss, by requiring the segregation of funds of each Clearing Agency and of types of funds of each Clearing Agency, using external credit ratings in the evaluation of counterparties, and establishing investment limits by counterparty as well as investment type. As originally implemented, the

¹⁵ *Id.*

¹⁶ When the Investment Policy was implemented, the Clearing Agencies were subject to the requirements of subsection (d) of Rule 17Ad-22 under the Act, and the Investment Policy was designed to meet the requirements of Rule 17Ad-22(d)(3). *See supra* note 6; 17 CFR 240.17Ad-22(d). The Commission subsequently adopted Rule 17Ad-22(e) and amended Rule 17Ad-22(d) such that the Clearing Agencies became subject to the new requirements of Rule 17Ad-22(e) and are no longer subject to the requirements of Rule 17Ad-22(d). 17 CFR 240.17Ad-22(e).

Investment Policy was designed to meet the requirements of Rule 17Ad-22(e)(16) under the Act.¹⁷

For the reasons stated above, the Clearing Agencies believe that each of the proposed revisions would improve the clarity and comprehensiveness of the Investment Policy and, therefore, make the Investment Policy more effective in governing the management, custody, and investment of funds of and held by the Clearing Agencies. In this way, the proposed changes would better allow the Clearing Agencies to maintain this document in a way that is designed to meet the requirements of Rule 17Ad-22(e)(16). Therefore, the Clearing Agencies believe the proposed revisions would be consistent with the requirements of Rule 17Ad-22(e)(16) under the Act.¹⁸

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

Each of the Clearing Agencies believes that none of the proposed revisions to the Investment Policy would have any impact, or impose any burden, on competition. The Investment Policy applies equally to allowable investments of FICC and NSCC Clearing Funds and DTC Participants Fund deposits, as applicable, of each member of the Clearing Agencies, and establishes a uniform policy at the Clearing Agencies. The proposed changes to the Investment Policy would not affect any changes on the fundamental purpose or operation of this document and, as such, would also not have any impact, or impose any burden, on competition.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

The Clearing Agencies have not 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 Change, and Timing for Commission Action

Because the foregoing proposed rule change does not:

- (i) Significantly affect the protection of investors or the public interest;
- (ii) impose any significant burden on competition; and
- (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission

¹⁷ *Id.*

¹⁸ 17 CFR 240.17Ad-22(e)(16).

may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁹ and Rule 19b-4(f)(6) thereunder.²⁰

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File Number SR-NSCC-2020-007 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR-NSCC-2020-007. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<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

¹⁹ 15 U.S.C. 78s(b)(3)(A).

²⁰ 17 CFR 240.19b-4(f)(6).

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 NSCC 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-NSCC-2020-007 and should be submitted on or before April 24, 2020.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²¹

J. Matthew DeLesDernier,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-88511; File No. SR-OCC-2020-002]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Update The Options Clearing Corporation's Operational Loss Fee in OCC's Schedule of Fees

March 30, 2020.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 24, 2020, the Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by OCC. OCC filed the proposed rule change pursuant to Section 19(b)(3)(A)(ii)³ of the Act and Rule 19b-4(f)(2)⁴ thereunder so that the proposal was effective upon filing with the Commission.⁵ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

²¹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(ii).

⁴ 17 CFR 240.19b-4(f)(2).

⁵ As noted below, the proposed change would not become effective until the later of April 8, 2020 or the date on which the change is deemed certified under the Commodity Futures Trading Commission's ("CFTC") Regulation 40.6.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change by OCC would revise OCC's schedule of fees, effective April 8, 2020, to implement a change in the maximum contingent Operational Loss Fee in accordance with OCC's Capital Management Policy. Proposed changes to OCC's schedule of fees are attached [sic] as Exhibit 5 to the filing. Material proposed to be added to OCC's schedule of fees as currently in effect is underlined and material proposed to be deleted is marked in strikethrough text. All capitalized terms not defined herein have the same meaning as set forth in the OCC By-Laws and Rules.⁶

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

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(1) Purpose

The purpose of this proposed rule change is to revise OCC's schedule of fees to update the maximum aggregate Operational Loss Fee that OCC would charge Clearing Members in equal shares in the unlikely event that OCC's shareholders' equity ("Equity") falls below certain thresholds defined in OCC's Capital Management Policy. The proposed fee change is designed to enable OCC to replenish capital to comply with Rule 17Ad-22(e)(15) under the Exchange Act, which requires OCC, in pertinent part, to "hold[] liquid net assets funded by equity to the greater of either (x) six months . . . current operating expenses, or (y) the amount determined by the board of directors to be sufficient to ensure a recovery or orderly wind-down of critical operations and service"⁷ and "[m]aintain[] a viable plan, approved by the board of directors and updated at least annually, for raising additional equity should its equity fall close to or

⁶ OCC's By-Laws and Rules can be found on OCC's public website: <http://optionsclearing.com/about/publications/bylaws.jsp>.

⁷ See 17 CFR 240.17Ad-22(e)(15)(ii).

below the amount required [to be held]."⁸

On January 24, 2020, the SEC approved OCC's Capital Management Policy, which includes OCC's replenishment plan.⁹ Pursuant to that policy, OCC would charge an Operational Loss Fee in equal shares to Clearing Members to raise additional capital should OCC's Equity fall below certain defined thresholds.¹⁰ Specifically, after applying the unvested balance held in respect of OCC's Executive Deferred Compensation Program, OCC would charge an Operational Loss Fee in an amount to raise Equity to 110% of OCC's Target Capital Requirement, up to the maximum Operational Loss Fee identified in OCC's schedule of fees less the amount of any Operational Loss Fees previously charged and not refunded.¹¹ OCC calculates the maximum aggregate Operational Loss Fee based on the amount determined by the Board of Directors to be sufficient for a recovery or orderly wind-down of critical operations and services ("RWD Amount"),¹² which is determined based on the assumptions in OCC's Recovery and Orderly Wind-Down Plan ("RWD Plan").¹³ In order to account for OCC's tax liability for retaining the Operational Loss Fee as earnings, OCC may apply a tax gross-up to the RWD Amount ("Adjusted RWD Amount") depending on whether the operational loss that caused OCC's Equity to fall below the Trigger Event thresholds is tax deductible.¹⁴

The RWD Amount and, in turn, the Adjusted RWD Amount are determined annually based on OCC's corporate budget, the assumptions articulated in

⁸ See 17 CFR 240.17Ad-22(e)(15)(ii).

⁹ See Exchange Act Release No. 88029 (Jan. 24, 2020), 85 FR 5500 (Jan. 30, 2020) (SR-OCC-2019-007) ("Order Approving OCC's Capital Management Policy").

¹⁰ *Id.* at 5503. OCC would charge an Operational Loss Fee for a Trigger Event, which the Capital Management Policy defines as when OCC's Equity falls below 90% of OCC's Target Capital Requirement (*i.e.*, the amount of Equity determined by OCC's Board to be sufficient for OCC to meet its regulatory obligations and to serve market participants and the public interest) or remains below the Target Capital Requirement for ninety consecutive calendar days. *See id.* at 5510. OCC's Schedule of Fees currently lists these threshold amounts with respect to OCC's current Target Capital Requirement. This proposed rule change does not implement any change to the Target Capital Requirement or the corresponding threshold amounts.

¹¹ *Id.* at 5503.

¹² *Id.*

¹³ See Exchange Act Release No. 83918 (Aug. 23, 2018), 83 FR 44091, 44094 (Aug. 29, 2018) (SR-OCC-2017-021) ("Order Approving OCC's RWD Plan").

¹⁴ Order Approving OCC's Capital Management Policy, 85 FR at 5503.