

focus these on the Exchange's core business and other aspects of the Exchange's operations, including the Exchange's regulatory function. The Commission believes that the proposed rule change raises no new or novel issues and that waiver of the operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposal operative upon filing.²⁷

At any time within 60 days of the filing of such 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 under Section 19(b)(2)(B)²⁸ of the Act to determine whether the proposed rule change 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-MEMX-2020-11 on the subject line.

Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-MEMX-2020-11. 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

²⁷ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁸ 15 U.S.C. 78s(b)(2)(B).

with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of 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-MEMX-2020-11 and should be submitted on or before November 3, 2020.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁹

J. Matthew DeLesDernier,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-90101; File No. SR-FICC-2020-010]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving a Proposed Rule Change To Describe Key Components of the Mortgage-Backed Securities Division Stress Testing Program

October 6, 2020.

I. Introduction

On August 11, 2020, Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-FICC-2020-010, pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder.² The proposed rule change was published for comment in the Federal

²⁹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Register on August 25, 2020.³ The Commission did not receive any comment letters on the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.⁴

II. Description of the Proposed Rule Change

The proposed rule change consists of a proposal to amend the FICC Mortgage-Backed Securities Division ("MBSD") Clearing Rules ("MBSD Rules")⁵ to include a new section that would describe the purpose and the key components of MBSD's stress testing program. The proposed rule change would also provide that vendor-supplied data would be used in the stress testing program, and that a back-up calculation would be used in the event the vendor fails to provide FICC with the vendor-sourced data. The proposed changes are further described below.

A. Background

MBSD provides trade comparison, netting, risk management, settlement, and central counterparty services for the U.S. mortgage-backed securities market. FICC manages its credit exposures to its Clearing Members by collecting an appropriate amount of margin (referred to in the MBSD Rules as Required Fund Deposit) from each Clearing Member.⁶ The aggregate of all Clearing Members' margin amounts (together with certain other deposits required under the MBSD Rules) constitutes MBSD's Clearing Fund, which FICC would access should a Clearing Member default with insufficient margin to satisfy any FICC losses caused by the liquidation of the defaulting Clearing Member's portfolio.⁷

³ Securities Exchange Act Release No. 89616 (August 19, 2020), 85 FR 52387 (August 25, 2020) (SR-FICC-2020-010) ("Notice").

⁴ On January 21, 2020, FICC filed a portion of this proposed rule change that is subject to Section 806(e)(1)(A) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 ("the Clearing Supervision Act") and Rule 19b-4(n)(1)(i) under the Act, as an advance notice with the Commission (the "Advance Notice Filing"). 12 U.S.C. 5465(e)(1); 17 CFR 240.19b-4(n)(1)(i); Release No. 88266 (February 24, 2020), 85 FR 11413 (February 27, 2020) (SR-FICC-2020-801). The Commission issued a notice of no objection to the Advance Notice Filing on March 13, 2020. See Release No. 88382 (March 13, 2020), 85 FR 15830 (March 19, 2020) (SR-FICC-2020-801). A copy of the Advance Notice Filing and the Commission's notice of no objection are available at: <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

⁵ Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the MBSD Rules, available at: www.dtcc.com/legal/rules-and-procedures.aspx.

⁶ See MBSD Rule 4, *supra* note 5.

⁷ *Id.*

FICC uses stress testing to test the sufficiency of its prefunded financial resources.⁸ In contrast to FICC's margin methodologies, which are designed to limit FICC's credit exposures under normal market conditions,⁹ FICC's stress testing methodologies are designed to quantify FICC's potential losses under extreme but plausible market conditions.¹⁰ Therefore, stress testing is designed to help FICC identify credit risks beyond those contemplated by FICC's margin methodologies, including credit exposures that might result from the realization of potential stress scenarios, such as extreme price changes, multiple defaults, or changes in other valuation inputs and assumptions.¹¹ As a result, stress testing helps FICC identify the amount of financial resources necessary to cover its credit exposure under stress scenarios in extreme but plausible market conditions.¹²

The purpose and the key components of MBSD's stress testing program, among others, are provided in the Stress Testing Framework.¹³ FICC's stress testing methodologies have three key components: Risk identification, scenario development, and risk measurement and aggregation. The key components generally provide that FICC identifies the principal credit risk drivers, develops sets of extreme but plausible historical and hypothetical stress scenarios for the identified risk drivers, and calculates risk metrics for each Clearing Member's actual portfolio to estimate the profits and losses in connection with such Clearing Member's close-out under the chosen stress scenarios.¹⁴

⁸ On December 19, 2017, the Commission approved FICC's adoption of the Clearing Agency Stress Testing Framework (Market Risk), which among other things, sets forth the purpose of FICC's stress testing and describes certain methodologies FICC uses in its stress testing. Securities Exchange Act Release No. 82368 (December 19, 2017), 82 FR 61082 (December 26, 2017) (SR-DTC-2017-005; SR-FICC-2017-009; SR-NSCC-2017-006) ("Stress Testing Framework Order"). The Stress Testing Framework is an FICC rule, pursuant to Section 3(a)(27) of the Act, although it is not part of the MBSD Rules, and it has been filed confidentially with the Commission. See 15 U.S.C. 78c(a)(27).

⁹ See e.g., Securities Exchange Act Release No. 80253 (March 15, 2017), 82 FR 14581, 14582 (March 21, 2017) (SR-FICC-2017-004) (notice of filing and immediate effectiveness of a proposed rule change to amend MBSD Rules with respect to the intraday mark-to-market charge).

¹⁰ See Stress Testing Framework Order, *supra* note 8 at 61083; Notice, *supra* note 3 at 52388.

¹¹ See *id.*; 17 CFR 240.17Ad-22(a)(17).

¹² See Stress Testing Framework Order, *supra* note 8 at 61083; Notice, *supra* note 3 at 52388.

¹³ See Stress Testing Framework Order, *supra* note 8 at 61082-83.

¹⁴ See Stress Testing Framework Order, *supra* note 8 at 61083; Notice, *supra* note 3 at 52388.

B. MBSD's Stress Testing Program

FICC proposes to include a new section in the MBSD Rules to provide the purpose and the key components of FICC's stress testing program.¹⁵ By including such description of the stress testing program in the MBSD Rules, which is a public document, FICC intends to make the current stress testing program transparent to its Clearing Members.¹⁶ Specifically, the proposed rule change provides that FICC uses stress testing to (1) test the sufficiency of the Clearing Fund against FICC's potential losses assuming the default of a Clearing Member with the largest credit exposure and its entire Affiliated Family under extreme but plausible market conditions, and (2) identify both (x) Clearing Members who may pose a greater market risk under certain market conditions, and (y) potential weaknesses in FICC's margin methodologies. The proposed rule change also provides that FICC's stress testing program has three key components.¹⁷ First, FICC analyzes the securities and risk exposures in its Clearing Members' portfolios to identify the principal market risk drivers and capture the risk sensitivity of the portfolios under stressed market conditions. Second, FICC develops a comprehensive set of scenarios including historical scenarios and hypothetical stress scenarios. Third, FICC calculates risk metrics for each Clearing Member's actual portfolio to estimate the profits and losses in connection with such Clearing Member's close out under the chosen stress scenarios.

C. Vendor-Supplied Data in MBSD's Stress Testing Program

In connection with FICC's stress testing program, FICC proposes to use vendor-supplied data in MBSD's scenario development process, which is the second component of FICC's stress testing program, and the risk measurement and aggregation process, which is the third component of FICC's stress testing program.

(1) Historical Data in the Scenario Development Component

The scenario development component involves FICC's construction of comprehensive and relevant sets of extreme but plausible historical and hypothetical stress scenarios for identified risk drivers. In its development of historical stress

¹⁵ The changes described in Section II.B. are consistent with the existing Framework.

¹⁶ See Notice, *supra* note 3 at 52388.

¹⁷ See *id.*

scenarios, FICC proposes to examine vendor-supplied historical risk factor¹⁸ time series data ("Historical Data") to identify the largest historical changes of risk factors that influence the pricing of mortgage-backed securities.

FICC proposes to use Historical Data because it believes that this data would explain the market price changes of To-Be-Announced ("TBA") securities transactions cleared by MBSD.¹⁹ In addition, FICC believes that the data would (1) identify stress risk exposures under broad and varied market conditions, and (2) provide MBSD with a capability to design transparent scenarios.²⁰

(2) Historical Data and Security-Level Data in the Risk Measurement and Aggregation Component

FICC represents that the risk measurement and aggregation process calculates risk metrics for each Clearing Member's actual portfolio to estimate the profits and losses in connection with such Clearing Member's close out under chosen stress scenarios.²¹ In connection with this calculation, FICC proposes to use a financial profit-and-loss calculation that leverages the Historical Data and the vendor-supplied security-level risk sensitivity²² data ("Security-Level Data"). The Security-Level Data is generated using the vendor's suite of security valuation models that includes an agency mortgage prepayment model and interest rate term structure model.²³ FICC believes that the vendor's approach generates stable and robust Security-Level Data.²⁴ Because the stress profits and losses calculation would include Security-Level Data, FICC believes that the calculated results would reflect results that are close to actual price changes for TBA securities during larger market moves, which are typical of stress testing scenarios.²⁵

¹⁸ Generally, the term "risk factor" (or "risk driver") means an attribute, characteristic, variable or other concrete determinant that influences the risk profile of a system, entity, or financial asset. Risk factors may be causes of risk or merely correlated with risk.

¹⁹ See Notice, *supra* note 3 at 52389.

²⁰ See *id.*

²¹ See *id.*

²² The term "sensitivity" means the percentage value change of a security given each risk factor change.

²³ A prepayment model captures cash flow uncertainty as a result of unscheduled payments of principal (prepayments). An interest rate term structure model describes the relationship between interest rates of different maturities.

²⁴ See Notice, *supra* note 3 at 52389.

²⁵ See *id.*

D. Back-Up Stress Testing Calculation

Finally, FICC proposes to implement a back-up calculation that it would use in the event the vendor fails to provide FICC with the vendor-sourced data described above. Specifically, if the vendor fails to provide any data or a significant portion of the data in accordance with the timeframes to which FICC and the vendor agreed, FICC would use the most recently available data on the first day that such disruption occurs. If FICC and the vendor expect that the vendor would resume providing data within five business days, FICC would determine whether to calculate the daily stress testing calculation using the most recently available data or a back-up calculation, described below. If FICC and the vendor expect that the data disruption would extend beyond five days, FICC would utilize the back-up calculation.

E. Delayed Implementation of the Proposed Rule Change

FICC proposes to implement the proposed rule change within 45 Business Days after the Commission's approval of this proposed rule change. Prior to the effective date, FICC would add legends to the MBSD Rules to state that the specified changes to the MBSD Rules have been approved but not yet implemented, and to provide the date such approved changes would be implemented. The legends would also include the file number of the approved proposed rule change and state that once implemented, the legends would automatically be removed from the MBSD Rules.

III. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act²⁶ 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 the rules and regulations thereunder applicable to such organization. After careful consideration, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to FICC. In particular, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,²⁷ as well as Rule 17Ad–22(e)(4)(iii) and (iv) thereunder²⁸ for the reasons described below.

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, such as FICC, be designed to promote the prompt and accurate clearance and settlement of securities transactions, and, in general, to protect investors and the public interest.²⁹

First, as described in Section II.B., the proposed rule change would incorporate a new section explaining the purpose and the three key components of the stress testing program, which is currently included in the Stress Testing Framework. By incorporating the purpose and the key components of the stress testing program in the MBSD Rules, the proposed rule change would provide FICC stakeholders with a better understanding of what the stress testing program is designed to accomplish and how FICC manages its credit exposures. The Commission therefore believes that this aspect of the proposed rule change is consistent with Section 17A(b)(3)(F), in that this increased transparency would protect investors and the public interest.

Second, as described in Section II.C., FICC proposes to use vendor-supplied data in MBSD's scenario development process and the risk measurement and aggregation process. The Commission believes that vendor-supplied data should allow FICC to identify and analyze risk exposures under a broad and varied range of stressed market conditions, which should, in turn, help FICC identify the amount of financial resources necessary to cover its credit exposure under stress scenarios in extreme but plausible market conditions. The Commission further believes that the use of vendor-supplied data should enable FICC to perform a robust assessment of the stress profits and losses calculation, identify and address potential risks with risks with respect to specific Clearing Members and their affiliates, and in turn, should help FICC ensure that it is collecting adequate prefunded financial resources to cover its potential losses resulting from the default of clearing members and their affiliates under extreme but plausible market conditions.

Moreover, as described in Section II.D., FICC proposes to use a back-up calculation in the event the vendor fails to provide FICC with the vendor-sourced data. The Commission believes that the back-up calculation is designed to provide FICC with a reasonable alternative method for calculating stress

profit-and-loss in the event of an interruption in the vendor-sourced data feed. By providing FICC with a reasonable alternative method for conducting stress testing, the Commission believes that the proposed back-up calculation is designed to help FICC avoid gaps in assessing the sufficiency of its prefunded financial resources due to the inability of particular data.

Taken together, the Commission believes that these aspects of the proposed rule change, as described in Sections II.C. and II.D., should better enable FICC to evaluate and manage the credit risk presented by its Clearing Members. The Commission believes that the proposed rule change is designed to improve FICC's ability to meet its requirement to maintain sufficient prefunded financial resources at a minimum to enable FICC to cover the default of the Clearing Member (including relevant affiliates) that would potentially cause the largest aggregate credit exposure for FICC in extreme but plausible conditions, as required under Rule 17Ad–22(e)(4)(iii).³⁰ Accordingly, the Commission believes that the proposed rule change should help FICC to continue providing prompt and accurate clearance and settlement of securities transactions even in extreme but plausible historical and hypothetical stress scenarios, consistent with Section 17A(b)(3)(F) of the Act.³¹

B. Consistency With Rule 17Ad–22(e)(4)(iii) and (vi)

Rule 17Ad–22(e)(4)(iii) requires that a covered clearing agency, such as FICC, establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, by maintaining additional financial resources at the minimum to enable it 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.³² Rule 17Ad–22(e)(4)(vi) requires that a covered clearing agency, such as FICC, effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, by testing the sufficiency of

²⁶ 15 U.S.C. 78s(b)(2)(C).

²⁷ 15 U.S.C. 78q–1(b)(3)(F).

²⁸ 17 CFR 240.17Ad–22(e)(4)(iii) and (iv).

²⁹ *Id.*

³⁰ 17 CFR 240.17Ad–22(e)(4).

³¹ *Id.*

³² 17 CFR 240.17Ad–22(e)(4)(iii).

its total financial resources available by conducting stress testing of its total financial resources once each day using standard predetermined parameters and assumptions.³³

As described in Section II.C., FICC proposes to use vendor-supplied data, including Historical Data and Security-Level Data, in MBSD's scenario development process and the risk measurement and aggregation process. Historical Data would identify stress risk exposures under broad and varied market conditions and provide FICC with an enhanced capability to design more transparent scenarios.³⁴ Security-Level Data would provide stable and robust data that would enable FICC to calculate stress profits and losses that is more accurate.³⁵ In addition, as described in Section II.D., FICC proposes to use a back-up calculation in the event the vendor fails to provide data to FICC.

The Commission believes that the proposal is consistent with Rule 17Ad-22(e)(4)(iii) because it should better enable FICC to assess its ability to maintain sufficient financial resources to cover a wide range of foreseeable stress scenarios that include the default of the member (including relevant affiliates) that would potentially cause FICC's largest aggregate credit exposure in extreme but plausible conditions.³⁶ Additionally, the Commission believes FICC's proposed stress testing methodology is consistent with Rule 17Ad-22(e)(4)(vi) because it should enable FICC to test the sufficiency of its minimum financial resources by conducting stress testing using standard predetermined parameters and assumptions.³⁷

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act and, in particular, with the requirements of Section 17A of the Act³⁸ and the rules and regulations promulgated thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act³⁹ that

³³ 17 CFR 240.17Ad-22(e)(4)(vi).

³⁴ See Notice, *supra* note 3 at 52389.

³⁵ See *id.*

³⁶ 17 CFR 240.17Ad-22(e)(4)(iii).

³⁷ 17 CFR 240.17Ad-22(e)(4)(vi).

³⁸ 15 U.S.C. 78q-1.

³⁹ 15 U.S.C. 78s(b)(2).

proposed rule change SR-FICC-2020-010, be, and it hereby is, *approved*.⁴⁰

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴¹

J. Matthew DeLesDernier,

Assistant Secretary.

[FR Doc. 2020-22476 Filed 10-9-20; 8:45 am]

BILLING CODE 8011-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-90112; File No. S7-13-20]

Notice of Proposed Exemptive Order Granting Conditional Exemption From the Broker Registration Requirements of Section 15(a) of the Securities Exchange Act of 1934 for Certain Activities of Finders

AGENCY: Securities and Exchange Commission.

ACTION: Notice of proposed exemptive order; request for comment.

SUMMARY: Pursuant to Sections 15(a)(2) and 36(a)(1) of the Securities Exchange Act of 1934 ("Exchange Act"), the Securities and Exchange Commission ("SEC" or "Commission") is proposing to grant exemptive relief to permit natural persons to engage in certain limited activities on behalf of issuers ("Finders"), without registering as brokers under Section 15 of the Exchange Act. The proposed exemption provides for two classes of Finders, Tier I Finders and Tier II Finders, with corresponding conditions as described below.

DATES: Comments should be received on or before November 12, 2020.

ADDRESSES: Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's internet comment form (<http://www.sec.gov/rules/exorders.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File Number S7-13-20 on the subject line.

Paper Comments

- Send paper comments to Vanessa A. Countryman, Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number S7-13-20. This file number

⁴⁰ In approving the proposed rule change, the Commission considered the proposals' impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁴¹ 17 CFR 200.30-3(a)(12).

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/exorders.shtml>). Comments also are 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. 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.

FOR FURTHER INFORMATION CONTACT:

Emily Westerberg Russell, Chief Counsel; Joanne Rutkowski, Assistant Chief Counsel; Timothy White, Senior Special Counsel; Geeta Dhingra, Special Counsel; and Darren Vieira, Special Counsel, Office of Chief Counsel, Division of Trading and Markets, at (202) 551-5550, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-8549.

SUPPLEMENTARY INFORMATION:

I. Introduction

The Commission's mission includes facilitating capital formation—not only for public companies, but also for the small businesses that are active participants in our private markets. Our dynamic markets and economy significantly benefit from a robust pipeline of new small businesses, which create the majority of net new jobs in the United States¹ and greatly contribute to innovation.² Small and emerging companies—from start-ups seeking their initial seed funding to businesses on a path to become a public reporting company—require capital to grow and scale.³ One of the ways that

¹ See U.S. Small Business Administration Office of Advocacy, Frequently Asked Questions (Sept. 2019), available at <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/09/24153946/Frequently-Asked-Questions-Small-Business-2019-1.pdf>.

² See, e.g., Ufuk Akcigit and William R. Kerr, "Growth through Heterogeneous Innovations," Journal of Political Economy 126:4 (Aug. 2018), available at <https://www.journals.uchicago.edu/doi/full/10.1086/697901> (demonstrating that the "relative rate of major inventions is higher in small firms" due to the "outcome of innovation investment choices by firms").

³ See Facilitating Capital Formation and Expanding Investment Opportunities by Improving Access to Capital in Private Markets, Release No. 33-10763 (Mar. 4, 2020) [85 FR 17956 (Mar. 31, 2020)] ("Harmonization Proposal") (proposing amendments to facilitate capital formation and increase opportunities for investors by expanding