

that could be cleared and settled at MBSD, and it would remove the size restrictions with respect to SBO-Destined Trades.

With these changes, which were developed in consideration of the feedback received from MBSD Clearing Members,⁶⁹ FICC could provide a more efficient and effective operational processes in connection with the clearance and settlement of MBS trades, expand the scope of products cleared and settled by MBSD, and enable Clearing Members to submit such trades in any size. Therefore, the Commission believes that the Proposed Rule Change is designed to help FICC be more efficient and effective in meeting the requirements of its participants and the markets it serves, and in providing clearing and settlement arrangements, operating structure, and scope of products cleared or settled, which is consistent with Rule 17Ad-22(e)(21).

V. 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 Act⁷⁰ and the rules and regulations promulgated thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act⁷¹ that proposed rule change SR-FICC-2017-012 be, and hereby is, *approved*.⁷²

⁶⁹ FICC describes in Item 7 of its Form 19b-4 responses the extent to which the proposed changes were informed by feedback from its Clearing Members and various working groups over numerous years. Available at <http://www.dtcc.com/legal/sec-rule-filings>. Specifically, FICC states that in 2015, 92 Clearing Member representatives participated in forums held in June, and 157 representatives participated in forums in September and October. *Id.* FICC states that in 2016, 139 representatives participated in forums held in March, 241 representatives participated in forums held in August, and 121 participated in forums held in December. *Id.* Additionally, FICC states that it held a number of conference calls with individual Clearing Members to address questions and concerns on the subject. *Id.* Moreover, FICC explains that the Proposed Rule Change was even the subject of a prior rule filing with the Commission to fund the proposed changes. *Id.* See also Exchange Act Release No. 74033 (January 12, 2015), 80 FR 2452 (January 16, 2015) (SR-FICC-2014-12).

⁷⁰ 15 U.S.C. 78q-1.

⁷¹ 15 U.S.C. 78s(b)(2).

⁷² In approving the proposed rule change, the Commission considered the proposals' impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁷³

Jill M. Peterson,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-81044; File No. SR-NSCC-2017-009]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Further Describe and Codify Existing Practices Relating to the Bond Haircut

June 29, 2017.

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 June 23, 2017, 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. The 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 consists of amendments to NSCC's Rules & Procedures ("Rules")³ in order to (1) provide additional transparency in the Rules with respect to the existing methodology for calculating margin on Members' Net Unsettled Positions and Net Balance Order Unsettled Positions (for purposes of this filing, referred to collectively herein as "Net Unsettled Positions") in corporate and municipal bonds ("Bond Haircut"), which are excluded from the parametric volatility component of the margin calculation ("VaR Charge"); and (2) codify NSCC's existing practice of applying the Bond Haircut to all corporate and municipal bonds without discretion, as described below.

⁷³ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Terms not defined herein are defined in the Rules, available at www.dtcc.com/-/media/Files/Downloads/legal/rules/nsc_rules.pdf.

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

Proposal Overview

The proposed rule change would provide additional transparency in the Rules with respect to the calculation and the application of the Bond Haircut. NSCC currently excludes Net Unsettled Positions in corporate and municipal bonds from its parametric VaR calculation and instead charges a Bond Haircut, which is calculated by multiplying the absolute value of the Net Unsettled Positions in each security by a percentage that is no less than two percent.

NSCC is proposing to enhance the description of the Bond Haircut in Procedure XV to provide more detail regarding the determination of the applied percentage, and to codify NSCC's existing practice of applying the Bond Haircut to all corporate and municipal bonds without discretion.

The Required Deposit and the Bond Haircut

A primary objective of NSCC's Clearing Fund is to have on deposit from each applicable Member assets sufficient to satisfy losses that may otherwise be incurred by NSCC as the result of the default of the Member and the resultant close out of that Member's unsettled positions under NSCC's trade guaranty. Each Member's Clearing Fund required deposit is calculated daily pursuant to a formula set forth in Procedure XV of the Rules designed to provide sufficient funds to cover this risk of loss. The Clearing Fund formula accounts for a variety of risk factors through the application of a number of charges, each described in Procedure XV.

The VaR Charge is a core component of this formula and is designed to calculate the amount of money that may be lost on a portfolio over a given period of time assumed necessary to liquidate

the portfolio, within a given level of confidence. Pursuant to Procedure XV, NSCC may currently exclude from this calculation Net Unsettled Positions in classes of securities whose volatility is amenable to generally accepted statistical analysis only in a complex manner, including corporate and municipal bonds.

NSCC believes the Bond Haircut is a more appropriate measure of the risk presented to NSCC by its Members' positions in corporate and municipal bonds than the VaR Charge because the volatility of these securities is generally amenable to statistical analysis only in a complex manner. Because NSCC believes the Bond Haircut is more effective in capturing the risks presented by corporate and municipal bonds, in addition to adding more detail to Procedure XV regarding the calculation of the Bond Haircut, NSCC is also proposing to codify its existing practice by removing reference to discretion in application of the Bond Haircut to these securities.

a. Corporate Bonds

In order to calculate the Bond Haircut for positions in corporate bonds, NSCC first categorizes corporate bonds into security groups according to the bonds' remaining time to maturity and credit rating. NSCC then aligns each security group against a Merrill Lynch bond index.⁴ Each bond index is chosen to provide a valuation proxy for computing the appropriate margin for securities categorized into that group. NSCC calculates a haircut rate applicable to each security group based on historical returns of the aligned Merrill Lynch bond index in the specified look-back period and a predetermined calibration percentile. NSCC is proposing to clarify in Procedure XV that the look-back period shall be no shorter than 10 years. Currently, the look-back period is from 1995 to present day.⁵ The haircut rate

⁴ Bond indices are widely used to measure the risk of particular classes of corporate bonds. By aligning each security group to a Merrill Lynch bond index, NSCC is able to use widely accepted historical pricing information as a valuation proxy for each security group to correlate with the actual risk coverage for the particular attributes of the bonds. Using these reliable pricing proxies permits NSCC to conduct loss estimation associated with clearing these securities in a less complex statistical manner, while achieving the desired coverage target.

⁵ NSCC regularly reviews whether its margining methodology is achieving the desired risk mitigation objectives. In connection with such review, NSCC has determined to make technical enhancements to the calculation of the Bond Haircut as applied to positions in corporate bonds, including an adjustment to this look-back period. Such enhancements shall be proposed pursuant to a separate advance notice filing, to be filed pursuant to Section 806(e)(1) of the Payment, Clearing, and

for each security group is recalculated periodically, based on a predetermined frequency. While NSCC is proposing to clarify in Procedure XV that such recalculation shall occur at least annually, currently the recalculation is performed on a daily basis.⁶

Further, NSCC determines the appropriate specified look-back period and predetermined calibration percentile, which shall not be less than 99 percent, in order to account for the particularized risk characteristics of corporate bonds, including market, liquidity and idiosyncratic risk (*i.e.*, the volatility of a particular issue compared to the volatility of the index).

b. Municipal Bonds

The Bond Haircut for positions in municipal bonds is calculated at the CUSIP level. In order to account for price and valuation volatility, NSCC has set a tenor-based haircut schedule that applies according to the remaining time to maturity for separate categories of municipal bonds. Currently, NSCC applies this schedule to six separate categories of municipal bonds. For municipal bonds rated BBB+ or lower and for non-rated bonds, an additional factor is applied based on the applicable municipal sector. If a municipal bond is not mapped to any particular sector, the highest numerical municipal factor is applied to positions in that bond. NSCC reviews and re-assigns, as necessary, the risk factors assigned to each municipal sector no less frequently than annually.

This additional factor is added to lower rated municipal bonds because variable risk factors exist between municipal sectors. In addition to the risk associated with time-to-maturity, municipal bonds may also pose credit risk depending upon the bonds' assigned credit rating. The added sector-based factor, applicable to lower-rated municipal bonds, is designed to compensate for this additional credit risk. Therefore, NSCC believes the Bond Haircut as applied to municipal bonds is also an appropriate measure for the risk presented by these positions.

Proposed Changes to Procedure XV

In order to make the proposed changes, NSCC would exclude Net Unsettled Positions in corporate and municipal bonds from Procedure XV, Sections I.(A)(1)(a)(ii) and (2)(a)(ii). These Sections of Procedure XV would continue to provide NSCC with

Settlement Supervision Act of 2010. 12 U.S.C. 5465(e)(1).

⁶ NSCC has also determined that the frequency of re-calibration of the haircut rates should be adjusted, and will propose to change this frequency pursuant to an advance notice filing. *Id.*

discretion to exclude certain securities, as described therein and other than corporate and municipal bonds, from its VaR margin calculation and instead apply a haircut-based margin charge. NSCC would add new Sections I.(A)(1)(a)(iii) and (2)(a)(iii) to Procedure XV to include more transparency around the determination of the Bond Haircut and to make clear that the Bond Haircut shall apply to all Net Unsettled Positions in corporate and municipal bonds, in lieu of a VaR Charge, and would not be subject to NSCC's discretion.

2. Statutory Basis

Section 17A(b)(3)(F) of the Act, requires, in part, that the Rules promote the prompt and accurate clearance and settlement of securities transactions.⁷ The proposed rule change with respect to the Bond Haircut would provide additional transparency in the Rules regarding the calculation and application of the Bond Haircut, and would codify NSCC's practice to apply the Bond Haircut to all positions in corporate and municipal bonds without discretion. The proposed changes would ensure that the Rules remain transparent, accurate and clear, which would enable all stakeholders to readily understand their rights and obligations in connection with NSCC's clearance and settlement of securities transactions. Therefore, NSCC believes that the proposed rule changes would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.⁸

Rule 17Ad-22(e)(23)(i) under the Act requires, in part, that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for publicly disclosing all relevant rules and material procedures.⁹ Rule 17Ad-22(e)(23)(ii) under the Act requires, in part, that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to provide sufficient information to enable participants to identify and evaluate the risks, fees, and other material costs they incur by participating in NSCC.¹⁰ The proposed rule change enhances the transparency in the Rules regarding the calculation and application of the Bond Haircut and codifies NSCC's practice to apply the Bond Haircut to all positions in corporate and municipal bonds without discretion. In this way, the

⁷ 15 U.S.C. 78q-1(b)(3)(F).

⁸ *Id.*

⁹ 17 CFR 240.17Ad-22(e)(23)(i).

¹⁰ 17 CFR 240.17Ad-22(e)(23)(ii).

proposed rule change provides for the public disclosure, through the new Procedure XV, Sections I.(A)(1)(a)(iii) and (2)(a)(iii) of the Rules, of the rules and procedures through which NSCC calculates and applies the Bond Haircut. The proposed rule change would allow NSCC to further provide its participants with sufficient information regarding the Bond Haircut to enable those participants to identify and evaluate the risks and material costs associated with the calculation and application of the Bond Haircut, which are incurred through their participation in NSCC. As such, NSCC believes the proposed rule change is consistent with Rule 17Ad-22(e)(23)(i) and (ii) under the Act.¹¹

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

NSCC does not believe that the proposed rule change would impact competition.¹² The proposed rule change would increase transparency of the Rules by codifying NSCC's current practice with respect to the assessment and imposition of the Bond Haircut. As such, NSCC believes that the proposed rule change would not impact Members or have any impact on competition.

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

NSCC has not received any written comments relating to this proposal. NSCC will notify the Commission of any written comments it receives.

III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and paragraph (f) of Rule 19b-4 thereunder. 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.

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-2017-009 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-2017-009. 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 Web site (<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 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 filing also will be available for inspection and copying at the principal office of NSCC 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-NSCC-2017-009 and should be submitted on or before July 27, 2017.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Jill M. Peterson,

Assistant Secretary.

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DEPARTMENT OF STATE

[Public Notice 10050]

60-Day Notice of Proposed Information Collection: Individual, Corporate or Foundation, and Government Donor Letter Applications

ACTION: Notice of request for public comment.

SUMMARY: The Department of State is seeking Office of Management and Budget (OMB) approval for the information collection described below. In accordance with the Paperwork Reduction Act of 1995, we are requesting comments on this collection from all interested individuals and organizations. The purpose of this notice is to allow 60 days for public comment preceding submission of the collection to OMB.

DATES: The Department will accept comments from the public up to September 5, 2017.

ADDRESSES: You may submit comments by any of the following methods:

- *Web:* Persons with access to the Internet may comment on this notice by going to www.Regulations.gov. You can search for the document by entering "Docket Number: DOS-2017-0027" in the Search field. Then click the "Comment Now" button and complete the comment form.

- *Email:* [MEDCS@state.gov](mailto:M/EDCS@state.gov).
- *Regular Mail:* Send written comments to: M/EDCS Room 7427B, 2201 C Street, Washington, DC 20520.

You must include the DS form number (if applicable), information collection title, and the OMB control number in any correspondence.

FOR FURTHER INFORMATION CONTACT: Direct requests for additional information regarding the collection listed in this notice, including requests for copies of the proposed collection instrument and supporting documents, to Chanel Wallace, who may be reached on (202) 647-7730 or at WallaceCR2@stat.gov.

SUPPLEMENTARY INFORMATION:

- *Title of Information Collection:* Individual, Corporate or Foundation and Government Donor Letter Application.

- *OMB Control Number:* 1405-0218.

- *Type of Request:* Extension of a Currently Approved Collection.

- *Originating Office:* Office of Emergencies in the Diplomatic and Consular Service (M/EDCS).

- *Form Number:* DS-4273, DS-4272 and DS-4271.

- *Respondents:* Individuals, Corporations, or Foundations that make donations to the Department.

¹¹ 17 CFR 240.17Ad-22(e)(23)(i), (ii).

¹² 15 U.S.C. 78q-1(b)(3)(I).

¹³ 17 CFR 200.30-3(a)(12).