

applicability to a wider group of Participants to include Participants that are foreign banks or trust companies, (ii) enabling the CRRM to take into account relevant qualitative factors in an automated and more effective manner when monitoring the credit risks presented by Participants and (iii) enabling the CRRM to generate credit ratings for Participants that are more reflective of the Participants' default risk by shifting to an absolute scoring approach, all of which would improve DTC's membership monitoring process overall. Therefore, DTC believes the proposed enhancements to the CRRM would assist DTC in identifying, measuring, monitoring and managing risks that arise in or are born by DTC, consistent with the requirements of Rule 17Ad-22(e)(3)(i).

The proposed rule change to Section 1 of Rule 2 with respect to the scope of information that may be requested by DTC from its Participants has been designed to be consistent with Rule 17Ad-22(e)(19) under the Act, which was recently adopted by the Commission.<sup>19</sup> Rule 17Ad-22(e)(19) will require DTC to establish, implement, maintain and enforce written policies and procedures reasonably designed to identify, monitor, and manage the material risk to DTC arising from arrangements in which firms that are indirect participants in DTC rely on the services provided by Participants to access DTC's payment, clearing, or settlement facilities.<sup>20</sup> By expressly reflecting in the Rules what is already DTC's current practice associated with its request for information sufficient to demonstrate a Participant's satisfactory financial condition and operational capability to state that such request may include information regarding the businesses and operations of the Participant, as well as its risk management practices with respect to services of DTC utilized by the Participant for another Person, this proposed rule change would help enable DTC to have rule provisions that are reasonably designed to identify, monitor and manage the material risks to DTC arising from tiered participation arrangements consistent with Rule 17Ad-22(e)(19).

### III. Date of Effectiveness of the Advance Notice, 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 agency 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 agency with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the advance notice is filed, or the date further information requested by the Commission is received, if the Commission notifies the clearing agency in writing that it does not object to the proposed change and authorizes the clearing agency to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

The clearing agency shall post notice on its Web site of proposed changes that are implemented.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the Advance Notice is consistent with the Clearing Supervision 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](mailto:rule-comments@sec.gov). Please include File Number SR-DTC-2017-801 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-2017-801. 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 Advance Notice that

are filed with the Commission, and all written communications relating to the Advance Notice 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 DTC 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-2017-801 and should be submitted on or before April 28, 2017.

By the Commission.

**Eduardo A. Aleman,**  
Assistant Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80395; File No. SR-FICC-2017-804]

### Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Advance Notice To Enhance the Credit Risk Rating Matrix and Make Other Changes

April 7, 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 March 22, 2017, Fixed Income Clearing Corporation ("FICC") filed with the Securities and Exchange Commission ("Commission") the advance notice SR-FICC-2017-804 ("Advance Notice") as described in Items I, II and III below, which Items have been prepared by FICC.<sup>3</sup> 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> On March 22, 2017, FICC filed this Advance Notice as a proposed rule change (SR-FICC-2017-006) with the Commission pursuant to Section 19(b)(1) of the Act, 15 U.S.C. 78s(b)(1), and Rule

<sup>19</sup> 17 CFR 240.17Ad-22(e)(19). *Id.*

<sup>20</sup> *Id.*

Commission is publishing this notice to solicit comments on the Advance Notice from interested persons.

### I. Clearing Agency's Statement of the Terms of Substance of the Advance Notice

This Advance Notice consists of proposed modifications to FICC's Government Securities Division ("GSD") Rulebook ("GSD Rules") and Mortgage-Backed Securities Division ("MBS") Clearing Rules ("MBS Rules," and collectively with the GSD Rules, the "Rules").<sup>4</sup> The proposed rule change would amend the Rules in order to (i) enhance the matrix (hereinafter referred to as the "Credit Risk Rating Matrix" or "CRRM")<sup>5</sup> developed by FICC to evaluate the risks posed by certain GSD Netting Members and MBS Clearing Members (collectively, "CRRM-Rated Members") to FICC and its members from providing services to these CRRM-Rated Members and (ii) make other amendments to the Rules to provide more transparency and clarity regarding FICC's current ongoing membership monitoring process.

### II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Advance Notice

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the Advance Notice and discussed any comments it received on the Advance Notice. 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 and B below, of the most significant aspects of such statements.

<sup>1</sup> 19b-4, 17 CFR 240.19b-4. A copy of the proposed rule change is available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

<sup>4</sup> Capitalized terms not defined herein are defined in the GSD Rules, available at [www.dtcc.com/-/media/Files/Downloads/legal/rules/ficc\\_gov\\_rules.pdf](http://www.dtcc.com/-/media/Files/Downloads/legal/rules/ficc_gov_rules.pdf), and the MBS Rules, available at [www.dtcc.com/-/media/Files/Downloads/legal/rules/ficc\\_mbsd\\_rules.pdf](http://www.dtcc.com/-/media/Files/Downloads/legal/rules/ficc_mbsd_rules.pdf).

<sup>5</sup> The proposed rule changes with respect to the enhancement of the CRRM are reflected in the inclusion of (1) qualitative factors and examples thereof in the definition of "Credit Risk Rating Matrix" in GSD Rule 1 and MBS Rule 1 and (2) certain GSD Foreign Netting Members that are banks or trust companies and MBS Bank Clearing Members that are Foreign Persons as CRRM-Rated Members in GSD Rule 3 (Section 12(b)(i)(II)) and MBS Rule 3 (Section 11(b)(i)(II)). The proposed enhancement to CRRM also necessitates a conforming change to the existing Section 12(b) (renumbered to Section 12(c) in this proposed rule filing) of GSD Rule 3 by deleting the reference to Foreign Netting Members and Bank Netting Members participating through their U.S. branches or agencies, as further discussed below.

#### (A) Clearing Agency's Statement on Comments on the Advance Notice Received From Members, Participants, or Others

Written comments relating to this proposal have not been solicited or received. FICC will notify the Commission of any written comments received by FICC.

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

##### Nature of the Proposed Change

The proposed rule change would, among other things, enhance the CRRM to enable it to rate FICC members that are foreign banks or trust companies and have audited financial data that is publicly available. It would also enhance the CRRM by allowing it to take into account qualitative factors when generating credit ratings for FICC members. In addition, it would enhance the CRRM by shifting it from a relative scoring approach to an absolute scoring approach.

This rule filing also contains proposed rule changes that are not related to the proposed CRRM enhancements but that provide specificity, clarity and additional transparency to the Rules related to FICC's current ongoing membership monitoring process.

##### (i) Background

FICC occupies an important role in the securities settlement system by interposing itself through each of GSD and MBS as a central counterparty between members that are counterparties to transactions accepted for clearing by FICC, thereby reducing the risk faced by members. FICC uses the CRRM, the Watch List (as defined below) and the enhanced surveillance to manage and monitor default risks of its members on an ongoing basis, as discussed below. The level and frequency of such monitoring for a member is determined by the member's risk of default as assessed by FICC. Members that are deemed by FICC to pose a heightened risk to FICC and its members are subject to closer and more frequent monitoring.

##### Existing Credit Risk Rating Matrix

In 2004, the Commission approved a proposed rule change filed by FICC ("Initial Filing")<sup>6</sup> with respect to GSD and MBS to establish new criteria for

placing certain members of FICC on a list for closer monitoring ("Watch List").

FICC proposed in the Initial Filing that all U.S. broker-dealers and U.S. banks that were GSD Netting Members and/or MBS Clearing Members would be assigned a rating generated by entering financial data of those members into an internally generated credit rating scorecard, *i.e.*, the CRRM.<sup>7</sup> In the Initial Filing, FICC stated that all other types of GSD Netting Members and MBS Clearing Members would be monitored by credit risk staff using financial criteria deemed relevant by FICC but would not be assigned a rating by the CRRM.<sup>8</sup>

Following the approval of the Initial Filing, the Commission approved a subsequent proposed rule change filed by FICC that provided interpretive guidance to the Initial Filing ("Interpretive Guidance Filing").<sup>9</sup> In the Interpretive Guidance Filing, FICC reiterated that U.S. broker-dealers and U.S. banks would be assessed against the CRRM and assigned a credit rating based on quantitative factors. Unfavorably-rated members would be placed on the Watch List. In the Interpretive Guidance Filing, FICC explained that credit risk staff could downgrade a particular member's credit rating based on various qualitative factors. An example of such qualitative factors might be that the member in question received a qualified audit opinion on its annual audit. In the Interpretive Guidance Filing, FICC noted that, in order to protect FICC and its other members, it was important that credit risk staff maintain the discretion to downgrade a member's credit rating on the CRRM and thus subject the member to closer monitoring.

The current CRRM is comprised of two credit rating models—one for the U.S. broker-dealers and one for the U.S. banks—and generates credit ratings for the relevant members based on a 7-point rating system, with "1" being the

<sup>7</sup> Footnote 4 of the Initial Filing explained the new criteria for rating members: "[FICC's] approach to the analysis of members is based on a thorough quantitative analysis. A broker-dealer member's rating on the [CRRM] will be based on factors including size (*i.e.*, total excess net capital), capital, leverage, liquidity, and profitability. Banks will be reviewed based on size, capital, asset quality, earnings, and liquidity." *Id.* These quantitative factors are still being applied today, and FICC currently does not plan to change them.

<sup>8</sup> In the Initial Filing, FICC noted that these members would be monitored by credit risk staff by reviewing similar criteria as those reviewed for members included on the [CRRM] but such review would occur outside of the [CRRM] process. *Id.*

<sup>9</sup> See Securities Exchange Act Release No. 51355 (March 10, 2005), 70 FR 12919 (March 16, 2005) (SR-FICC-2004-08).

<sup>6</sup> See Securities Exchange Act Release No. 49158 (January 30, 2004), 69 FR 5624 (February 5, 2004) (SR-FICC-2003-03).

strongest credit rating and “7” being the weakest credit rating.

Over time, the current CRRM has not kept pace with FICC’s evolving membership base and heightened expectations from regulators and stakeholders for robustness of financial models. Specifically, the current CRRM only generates credit ratings for those GSD Netting Members and MBSB Clearing Members that are U.S. banks or U.S. broker-dealers that file standard reports with their regulators, which currently comprise 77% of GSD Netting Members and 85% of MBSB Clearing Members, respectively; foreign banks and trust companies currently account for 21% of GSD Netting Members and 1% of MBSB Clearing Members.<sup>10</sup> The numbers of GSD and MBSB members that are foreign banks or trust companies increased from 16 and zero in 2012 to 22 and one in 2017, respectively, and are expected to continue to grow over the coming years. Foreign banks and trust companies are typically large global financial institutions that have complex businesses and conduct a high volume of activities. Although foreign banks and trust companies are not currently rated by the CRRM, they are monitored by FICC’s credit risk staff using financial criteria deemed relevant by FICC and can be placed on the Watch List if they experience a financial change that presents risk to FICC. Given the increase in the number of foreign bank or trust company members in FICC in the recent years, there is a need to formalize FICC’s credit risk evaluation process of these members by assigning credit ratings to them in order to better facilitate the comparability of credit risks among members.<sup>11</sup>

In addition, the current CRRM assigns each GSD Netting Member and MBSB Clearing Member that is a U.S. bank or U.S. broker-dealer and that files standard reports with its regulator(s) a credit rating based on inputting certain

<sup>10</sup> As of March 16, 2017, there are 105 GSD Netting Members and 78 MBSB Clearing Members. Of the 105 GSD Netting Members, 13 (or 12%) are U.S. banks, 68 (or 65%) are U.S. broker-dealers and 22 (or 21%) are foreign banks or trust companies. Of the 78 MBSB Clearing Members, 14 (or 18%) are U.S. banks, 52 (or 67%) are U.S. broker-dealers and one (or 1%) is a foreign bank or trust company.

<sup>11</sup> In the Interpretive Guidance Filing, FICC noted that CRRM is applied across FICC and its affiliated clearing agencies, National Securities Clearing Corporation (“NSCC”) and The Depository Trust Company (“DTC”). Specifically, in order to run the CRRM, credit risk staff uses the financial data of the applicable GSD and MBSB members in addition to data of applicable members and participants of NSCC and DTC, respectively. In this way, each applicable GSD and MBSB member is rated against other applicable members and participants of NSCC and DTC, respectively. SR–FICC–2004–08, 70 FR 12919.

quantitative data relative to the applicable member into the CRRM. Accordingly, a member’s credit rating is currently based solely upon quantitative factors. It is only after the CRRM has generated a credit rating with respect to a particular member that such member’s credit rating may be downgraded manually by credit risk staff, after taking into consideration relevant qualitative factors. The inability of the current CRRM to take into account qualitative factors requires frequent and manual overrides by credit risk staff, which may result in inconsistent and/or incomplete credit ratings for members.

Furthermore, the current CRRM uses a relative scoring approach and relies on peer grouping of members to calculate the credit rating of a member. This approach is not ideal because a member’s credit rating can be affected by changes in its peer group even if the member’s financial condition is unchanged.

#### Proposed Credit Risk Rating Matrix Enhancements

To improve the coverage and the effectiveness of the current CRRM, FICC is proposing three enhancements. The first proposed enhancement would expand the scope of CRRM coverage by enabling the CRRM to generate credit ratings for GSD Netting Members and MBSB Clearing Members that are foreign banks or trust companies and that have audited financial data that is publicly available. The second proposed enhancement would incorporate qualitative factors into the CRRM and therefore is expected to reduce the need and the frequency of manual overrides of member credit ratings. The third enhancement would replace the relative scoring approach currently used by CRRM with a statistical approach to estimate the absolute probability of default of each member.

#### A. Enable the CRRM To Generate Credit Ratings for Foreign Bank or Trust Company Members

The current CRRM is comprised of two credit rating models—one for the U.S. broker-dealers and one for the U.S. banks. FICC is proposing to enhance the CRRM by adding an additional credit rating model for the foreign banks and trust companies. The additional model would expand the membership classes to which the CRRM would apply to include foreign banks and trust companies that are GSD Netting Members and/or MBSB Clearing Members and that have audited financial data that is publicly available. The CRRM credit rating of a foreign bank or trust company that is a GSD

Netting Member and/or MBSB Clearing Member would be based on quantitative factors, including size, capital, leverage, liquidity, profitability and growth, and qualitative factors, including market position and sustainability, information reporting and compliance, management quality, capital management and business/product diversity. By enabling the CRRM to generate credit ratings for these GSD Netting Members and MBSB Clearing Members, the enhanced CRRM would provide more comprehensive credit risk coverage of FICC’s membership base.

With the proposed enhancement to the CRRM as described above, applicable foreign bank or trust company GSD Netting Members and MBSB Clearing Members would be included in the CRRM process and be evaluated more effectively and efficiently because financial data with respect to these foreign bank or trust company members could be extracted from data sources in an automated form.<sup>12</sup>

After the proposed enhancement, CRRM would be able to generate credit ratings on an ongoing basis for all GSD Netting Members and MBSB Clearing Members that are U.S. banks, U.S. brokers-dealers and foreign banks and trust companies, which together represent approximately 99% of the GSD Netting Members and 86% of the MBSB Clearing Members, respectively.<sup>13</sup>

#### B. Incorporate Qualitative Factors Into the CRRM

In addition, as proposed, the enhanced CRRM would blend qualitative factors with quantitative factors to produce a credit rating for each applicable member in relation to the member’s credit risk. For U.S. and foreign banks and trust companies, the enhanced CRRM would use a 70/30 weighted split between quantitative and qualitative factors to generate credit ratings. For U.S. broker-dealers, the weight split between quantitative and qualitative factors would be 60/40.

<sup>12</sup> In the Initial Filing, FICC noted that these members would be monitored by credit risk staff by reviewing similar criteria as those reviewed for members included on the CRRM, but such review would occur outside of the CRRM process. SR–FICC–2003–03, 69 FR 5624.

<sup>13</sup> As of March 16, 2017, there are two GSD Netting Members that are government sponsored entities and therefore would not be rated by the enhanced CRRM, as proposed; there are also 11 MBSB Clearing Members that would not be rated by the enhanced CRRM, as proposed, because they are government sponsored entities, registered investment companies, unregistered investment pools (“UIPs”) or other entities that are eligible for MBSB Clearing Membership pursuant to Section 1(i) of MBSB Rule 2A. MBSB Rules, *supra* note 4.

These weight splits are chosen by FICC based on the industry best practice as well as research and sensitivity analysis conducted by FICC. FICC would review and adjust the weight splits as well as the quantitative and qualitative factors, as needed, based on recalibration of the CRRM to be conducted by FICC approximately every three to five years.

Although there are advantages to measuring credit risk quantitatively, quantitative evaluation models alone are incapable of fully capturing all credit risks. Certain qualitative factors may indicate that a member is or will soon be undergoing financial distress, which may in turn signal a higher default exposure to FICC and its other members. As such, a key enhancement being proposed to the CRRM is the incorporation of relevant qualitative factors into each of the three credit rating models mentioned above. By including qualitative factors in the three credit rating models, the enhanced CRRM would capture risks that would otherwise not be accounted for with quantitative factors alone.<sup>14</sup> Adding qualitative factors to the CRRM would not only enable it to generate more consistent and comprehensive credit ratings for applicable members, but it would also help reduce the need and frequency of manual credit rating overrides by the credit risk staff because overrides would likely only be required under more limited circumstances.<sup>15</sup>

### C. Shifting From Relative Scoring to Absolute Scoring

As proposed, the enhanced CRRM would use an absolute scoring approach and rank each member based on its individual probability of default rather than the relative scoring approach that is currently in use. This proposed change is designed to have a member's CRRM-generated credit rating reflect an absolute measure of the member's default risk and eliminate any potential distortion of a member's credit rating from the member's peer group that may

<sup>14</sup> The initial set of qualitative factors that would be incorporated into the CRRM includes (a) for U.S. broker dealers, market position and sustainability, management quality, capital management, liquidity management, geographic diversification, business/product diversity and access to funding, (b) for U.S. banks, environment, compliance/litigation, management quality, liquidity management and parental demands and (c) for foreign banks and trust companies, market position and sustainability, information reporting and compliance, management quality, capital management and business/product diversity.

<sup>15</sup> Once a member is assigned a credit rating, if circumstances warrant, credit risk staff would still have the ability to override the CRRM-issued credit rating by manually downgrading such rating as they do today. To ensure a conservative approach, the CRRM-issued credit ratings cannot be manually upgraded.

occur under the relative scoring approach used in the existing CRRM.

### D. Watch List and Enhanced Surveillance

In addition to the Watch List, FICC also maintains an enhanced surveillance list (referenced herein and in the proposed rule text as "enhanced surveillance") for membership monitoring. The enhanced surveillance list is generally used when members are undergoing drastic and unexpected changes in their financial conditions or operation capabilities and thus are deemed by FICC to be of the highest risk level and/or warrant additional scrutiny due to FICC's ongoing concerns about these members. Accordingly, members that are subject to enhanced surveillance are reported to FICC's management committees and are also regularly reviewed by a cross-functional team comprised of senior management of FICC. More often than not, members that are subject to enhanced surveillance are also on the Watch List. The group of members that is subject to enhanced surveillance is generally much smaller than the group on the Watch List. The enhanced surveillance list is an internal tool for FICC that triggers increased monitoring of a member above the monitoring that occurs when a member is on the Watch List.

A member could be placed on the Watch List either based on its credit rating of 5, 6 or 7, which can either be generated by the CRRM or from a manual downgrade, or when FICC deems such placement as necessary to protect FICC and its members. In contrast, a member would be subject to enhanced surveillance only when close monitoring of the member is deemed necessary to protect FICC and its members.

The Watch List and enhanced surveillance tools are not mutually exclusive; they may complement each other under certain circumstances. A key distinction between the Watch List and enhanced surveillance is that being placed on the Watch List may result in Clearing Fund related consequences under the Rules, whereas enhanced surveillance does not.<sup>16</sup> For example, a member that is in a precarious situation could be placed on the Watch List and be subject to enhanced surveillance; however, because the Watch List status could require additional Clearing Fund deposits, when FICC has preliminary

<sup>16</sup> FICC expects to provide additional clarity to members regarding the Watch List and its impact on Clearing Fund deposits in a subsequent proposed rule change to be filed with the Commission in 2017.

concerns about a member, to avoid potential increase to a member's Clearing Fund deposit, FICC may opt not to place the member on the Watch List until it is certain that such concerns would not be alleviated in the short-term. Instead, in such a situation, FICC might first subject the member to enhanced surveillance in order to closely monitor the member's situation without affecting the member's Clearing Fund deposits. If the member's situation improves, then it will no longer be subject to enhanced surveillance. If the situation of the member worsens, the member may then be placed on the Watch List as deemed necessary by FICC.

### (ii) Detailed Description of the Proposed Rule Changes Related to the Proposed CRRM Enhancements

In connection with the proposed enhancements to the CRRM, FICC proposes to amend the GSD Rules and the MBSD Rules to (1) incorporate qualitative factors into CRRM and (2) add foreign banks and trust companies that are GSD Netting Members and MBSD Clearing Members to the categories of members that would be assigned credit ratings by FICC using the CRRM.

#### A. Proposed Changes to GSD Rule 1 (Definitions) and MBSD Rule 1 (Definitions)

FICC is proposing to amend the "Credit Risk Rating Matrix" definition in GSD Rule 1 and MBSD Rule 1 to include qualitative factors, such as management quality, market position/environment and capital and liquidity risk management, because, as proposed, the enhanced CRRM would blend both qualitative factors and quantitative factors to produce a credit rating for each applicable FICC member.

#### B. Proposed Changes to Section 12(b)(i)(II) of GSD Rule 3 (Ongoing Membership Requirements) and Section 11(b)(i)(II) of MBSD Rule 3 (Ongoing Membership Requirements)

FICC is proposing to amend Section 12(b)(i)(III) of GSD Rule 3 and Section 11(b)(i)(III) of MBSD Rule 3 to expand the membership types to which the CRRM would apply to include GSD Netting Members and MBSD Clearing Members, as applicable, that are foreign banks or trust companies and that have audited financial data that are publicly available.

The enhanced CRRM would assign credit ratings for each GSD Netting Member and/or MBSD Clearing Member that is a foreign bank or trust company based on its publicly available audited

financial data. The credit rating would be based on an 18-point scale, which is then mapped to the 7-point rating system currently in use today, with “1” being the strongest credit rating and “7” being the weakest credit rating.

(iii) Other Proposed Rule Changes

This rule filing also contains proposed rule changes that are unrelated to the proposed enhancement of the CRRM. These proposed rule changes would provide specificity, clarity and additional transparency to the Rules with respect to FICC’s current ongoing membership monitoring process, as described below.

A. Proposed Changes to the Definitions of “Credit Risk Rating Matrix” and “Watch List” in GSD Rule 1 (Definitions) and MBSD Rule 1 (Definitions)

FICC is proposing to amend the definition of “Credit Risk Rating Matrix” in GSD Rule 1 and MBSD Rule 1 to state that, in addition to the proposed qualitative factors described above, the CRRM is also based on quantitative factors, such as capital, assets, earnings and liquidity.

FICC is also proposing to amend the definition of “Watch List” in GSD Rule 1 and MBSD Rule 1 to state that the Watch List is comprised of members whose credit ratings derived from the CRRM are 5, 6 or 7 as well as members that are deemed by FICC to pose a heightened risk to FICC and its members based on FICC’s consideration of relevant factors, including those set forth in Section 12(d) of GSD Rule 3 and Section 11(d) of MBSD Rule 3, as applicable.

B. Proposed Changes to GSD Rule 3 and MBSD Rule 3

Section 7 of GSD Rule 3 and Section 6 of MBSD Rule 3

FICC is proposing to amend Section 7 of GSD Rule 3 and Section 6 of MBSD Rule 3 to state that review of a GSD Member’s or MBSD Member’s financial or operational conditions may (1) include FICC requesting information regarding the businesses and operations of the member and its risk management practices with respect to FICC’s services utilized by the member for another Person and (2) result in the member being placed on the Watch List and/or being subject to enhanced surveillance as determined by FICC.

FICC members are direct participants of GSD and/or MBSD, as applicable. However, there are firms that rely on the services provided by GSD Members or MBSD Members in order to have their activity cleared and settled through

FICC’s facilities (the “indirect participants”). These indirect participants pose certain risks to FICC that need to be identified and monitored as part of FICC’s ongoing member due diligence process. In order for FICC to understand (1) the material dependencies between FICC members and the indirect participants that rely on the FICC members for the clearance and settlement of the indirect participants’ transactions, (2) significant FICC member-indirect participant relationships and (3) the various risk controls and mitigants that these FICC members employ to manage their risks with respect to such relationships, FICC may request information from GSD Members or MBSD Members regarding the members’ businesses and operations as well as their risk management practices with respect to services of FICC utilized by the FICC members for indirect participants. The information provided by FICC members would then be taken into consideration by FICC when determining whether a GSD Member or an MBSD Member, as applicable, may need to be placed on the Watch List, be subject to enhanced surveillance or both.

Section 12(a) of GSD Rule 3 and Section 11(a) of MBSD Rule 3

FICC is proposing to amend Section 12(a) of GSD Rule 3 and Section 11(a) of MBSD Rule 3 in order to specify the membership types that are currently subject to FICC’s ongoing monitoring and review. FICC currently monitors and reviews all (a) GSD Netting Members, Sponsoring Members and Funds-Only Settling Bank Members and (b) MBSD Members on an ongoing and periodic basis, which may include monitoring news and market developments relating to these members and conducting reviews of financial reports and other public information of these members.

Section 12(b)(i) of GSD Rule 3 and Section 11(b)(i) of MBSD Rule 3

FICC is proposing to add Section 12(b)(i) of GSD Rule 3 and Section 11(b)(i) of MBSD Rule 3 to (1) clarify that FICC is currently using the CRRM to generate credit ratings for (A) GSD Members that are Bank Netting Members and MBSD Members that are Bank Clearing Members; provided that each such member files the Consolidated Report of Condition and Income (“Call Report”) and (B) GSD Members that are Dealer Netting Members and Inter-Dealer Broker Netting Members and MBSD Members that are Dealer Clearing Members or Inter-Dealer Broker Clearing Members; provided that

each such member files the Financial and Operational Combined Uniform Single Report (“FOCUS Report”) or the equivalent with its regulator, (2) clarify that each CRRM-Rated Member’s credit rating would be reassessed upon receipt of additional information from the member and (3) delete language that states members may be placed on the Watch List based on their ratings as determined by CRRM or based on their failure to comply with operational standards and requirements.

Currently, Section 11(a) of MBSD Rule 3 states that UIPs are rated by the CRRM. FICC proposes to delete this statement and amend it to state that FICC reviews and monitors UIPs (as with all MBSD Members).<sup>17</sup> This proposed change corrects an error in the MBSD Rules and does not affect any rights or obligations of the MBSD Members because UIPs are still reviewed by FICC through proposed Section 11(a) of MBSD Rule 3.

Section 12(b)(ii) of GSD Rule 3 and Section 11(b)(ii) of MBSD Rule 3

FICC is proposing to add Section 12(b)(ii) of GSD Rule 3 and Section 11(b)(ii) of MBSD Rule 3 to provide that, because the factors used as part of the CRRM may not identify all risks that a member may pose to FICC, FICC may, in addition to other actions permitted by the Rules, downgrade the member’s credit rating derived from the CRRM if FICC believes the CRRM-generated rating is insufficiently conservative or if it deems such downgrade as necessary to protect FICC and its members. Depending on the credit rating of the member, a downgrade may result in the member being placed on the Watch List and/or being subject to enhanced surveillance based on relevant factors.

Section 12(c) of GSD Rule 3 and Section 11(c) of MBSD Rule 3

FICC is proposing to re-number the existing Section 12(b) of GSD Rule 3 and Section 11(b) of MBSD Rule 3 to Section 12(c) and Section 11(c) of the respective Rules as well as to amend these sections to state that, other than those members specified in Section 12(b)(i) of GSD Rule 3 and Section 11(b)(i) of MBSD Rule 3, FICC may place (1) GSD Sponsoring Members, Funds-Only Settling Bank Members and Netting Members and (2) MBSD Members, on the Watch List and/

<sup>17</sup> Amendment No. 1 to SR-FICC-2008-01, approved by the Commission in 2012, eliminated any reference to the CRRM with regards to UIPs; however, due to a clerical error, this change was not included in the Exhibit 5 thereto and therefore not reflected in the current MBSD Rules. See Securities Exchange Act Release No. 66550 (March 9, 2012), 77 FR 15155 (March 14, 2012) (SR-FICC-2008-01). FICC is proposing to correct this error.

or subject them to enhanced surveillance even though they are not being assigned credit ratings by FICC in accordance with the CRRM.

Section 12(d) of GSD Rule 3 and Section 11(d) of MBS Rule 3

FICC is proposing to add Section 12(d) to GSD Rule 3 and Section 11(d) to MBS Rule 3 to describe some of the factors that could be taken into consideration by FICC when downgrading a member's credit rating, placing a member on the Watch List and/or subjecting a member to enhanced surveillance. These factors include but are not limited to (i) news reports and/or regulatory observations that raise reasonable concerns relating to the member, (ii) reasonable concerns around the member's liquidity arrangements, (iii) material changes to the member's organizational structure, (iv) reasonable concerns of FICC about the member's financial stability due to particular facts and circumstances, such as material litigation or other legal and/or regulatory risks, (v) failure of the member to demonstrate satisfactory financial condition or operational capability or if FICC has a reasonable concern regarding the member's ability to maintain applicable membership standards and (vi) failure of the member to provide information required by FICC to assess risk exposures posed by the member's activity.

Section 12(e) of GSD Rule 3 and Section 11(e) of MBS Rule 3

FICC is proposing to re-number the existing Section 12(c) of GSD Rule 3 and Section 11(c) of MBS Rule 3 to Section 12(e) and Section 11(e) of the respective Rules and refer to FICC's ability to retain any Excess Clearing Fund Deposits of a GSD Netting Member or an MBS Clearing Member, as applicable, that has been placed on the Watch List pursuant to Section 9 of GSD Rule 4 or Section 9 of MBS Rule 4, as applicable. In addition, FICC is proposing technical modifications in these sections to correct grammatical errors and add a section reference.

Section 12(f) of GSD Rule 3 and Section 11(f) of MBS Rule 3

FICC is proposing to re-number the existing Section 12(d) of GSD Rule 3 and Section 11(d) of MBS Rule 3 to Section 12(f) and Section 11(f) of the respective Rules and provide that FICC would, in addition to other actions permitted by the Rules, conduct a more thorough monitoring of the financial condition and/or operational capability of, and require more frequent financial disclosures from, not only those

members that are placed on the Watch List but also members subject to enhanced surveillance, including examples of how the monitoring could be conducted and the types of disclosures that may be required. In addition, members that are subject to enhanced surveillance would be reported to FICC's management committees and regularly reviewed by a cross-functional team comprised of senior management of FICC.

Other Proposed Changes to GSD Rule 3 and MBS Rule 3

In addition to the proposed changes described above, FICC is proposing to delete the existing Section 12(e) of GSD Rule 3 and Section 11(e) of MBS Rule 3 to eliminate FICC's right to place a member with an Excess Capital Ratio of 0.5 or greater on the Watch List because FICC has not used, nor does it plan to use, this threshold.

In addition, FICC is proposing to delete the existing Section 12(f) of GSD Rule 3 and Section 11(f) of MBS Rule 3 to eliminate language that requires FICC to place a GSD Netting Member or an MBS Clearing Member, as applicable, on the Watch List if FICC takes any action against the GSD Netting Member or the MBS Clearing Member under GSD Rule 3, Section 7 (General Continuance Standards) and MBS Rule 3, Section 6 (General Continuance Standards), respectively. FICC is proposing these deletions because placement of a member on the Watch List would be covered by the proposed changes to Sections 12(b), (c) and (d) of GSD Rule 3 and Sections 11(b), (c) and (d) of MBS Rule 3. As such, the language being deleted by this proposed change would no longer be needed.

Similarly, FICC is proposing to delete language that requires a GSD Netting Member or an MBS Clearing Member, as applicable, to remain on the Watch List until the condition(s) that resulted in its placement on the Watch List are no longer present or if close monitoring by FICC is no longer warranted. FICC is proposing this deletion because whether a member remains on the Watch List would be covered by the proposed changes to Sections 12(b), (c) and (d) of GSD Rule 3 and Sections 11(b), (c) and (d) of MBS Rule 3. As such, the language being deleted by this proposed change would no longer be needed.

C. Proposed Changes to GSD Rules 5, 11 and 18

FICC is also proposing to amend GSD Rules 5 (Comparison System), 11 (Netting System) and 18 (Special Provisions for Repo Transactions) to clarify that FICC may subject (1) a

Comparison-Only Member to enhanced surveillance if FICC has determined that the Comparison-Only Member has violated its obligations under Section 1 of GSD Rule 5 and (2) a Netting Member to enhanced surveillance if FICC has determined that the Netting Member has violated its obligations under Section 3 of GSD Rule 11 or Section 2 of GSD Rule 18. In addition, FICC is proposing to amend GSD Rule 11 to correct a typographical error.

Implementation Timeframe

Pending Commission approval, FICC expects to implement this proposal promptly. Members would be advised of the implementation date of this proposal through issuance of a FICC Important Notice.

Expected Effect on Risks to the Clearing Agency, Its Participants and the Market

The proposed rule changes would mitigate counterparty credit risk for FICC by allowing FICC to more accurately monitor the creditworthiness and risk profile of its members. The enhanced CRRM would provide a more robust credit rating methodology by incorporating qualitative factors and adopting an absolute scoring approach. Both of these enhancements would improve FICC's ability to monitor the credit risk of its members and are expected to lessen the frequency of manual overrides. The enhanced CRRM would also expand the coverage of FICC's membership by providing credit ratings for members that are foreign banks or trust companies, which are not covered under the existing CRRM.

By mitigating counterparty credit risk for FICC as described above, the enhanced CRRM would also mitigate risk for FICC members because lowering the risk profile for FICC would in turn lower the risk exposure that FICC members may have with respect to FICC in its role as a central counterparty.

Management of Identified Risks

The proposed rule changes are designed to mitigate counterparty credit risk for FICC and to provide greater clarity and transparency to FICC's members regarding the counterparty credit risk management approach used by FICC.

The enhanced CRRM would improve FICC's ability to monitor the probability of default for members that are rated by the CRRM and is expected to lessen the need and the frequency of manual downgrades due to the anticipated improvement in the accuracy of the credit ratings generated by the enhanced CRRM.

FICC employs a risk-based approach to conducting monitoring and review of its members by using the CRRM to identify higher risk members. Once identified, FICC would place these members on the Watch List, which would result in more frequent review by FICC of these members than the other members. For members that are placed on the Watch List, FICC would conduct more thorough monitoring of these members' financial condition and/or operational capability, which could include, for example, on-site visits or additional due diligence information requests.

FICC members that have been placed on the Watch List may also be required to maintain a higher deposit to the GSD Clearing Fund or MBSD Clearing Fund, as applicable, which would help offset potential risks to FICC and its members arising from activity submitted by these members.

The enhanced CRRM would also expand the coverage of FICC's membership by providing credit ratings for foreign banks and trust companies, which are not currently rated under the existing CRRM. The addition of these entities would allow FICC to employ its risk-based approach to identify those higher risk members for additional monitoring with more efficiency (by reducing the need for manual overrides) and effectiveness (by generating a more comprehensive and accurate credit rating after taking into account both quantitative and qualitative factors and adopting the absolute scoring approach).

Thus, the enhanced CRRM would help FICC to identify those members that could present credit risk to FICC, which then would allow FICC to better manage the potential risks from these members.

#### Consistency With the Clearing Supervision Act

The proposed enhancements to the CRRM as described in detail above would be consistent with Section 805(b) of the Clearing Supervision Act.<sup>18</sup> The objectives and principles of Section 805(b) of the Clearing Supervision Act include, among other things, the promotion of robust risk management.<sup>19</sup>

By enhancing the CRRM to enable it to assign credit ratings to members that are foreign banks or trust companies and that have audited financial data that is publicly available, the proposed rule change would expand the CRRM's applicability to a wider group of members, which would improve FICC's membership monitoring process and

promote robust risk management, consistent with the objectives and principles of Section 805(b) of the Clearing Supervision Act cited above.

Similarly, by enhancing the CRRM to enable it to incorporate qualitative factors when assigning a member's credit rating, the proposed change would enable FICC to take into account relevant qualitative factors in an automated and more effective manner when monitoring the credit risks presented by the GSD Netting Members and MBSD Clearing Members, which would improve FICC's membership monitoring process overall and promote robust risk management, consistent with the objectives and principles of Section 805(b) of the Clearing Supervision Act cited above.

Likewise, by enhancing the CRRM to shift from a relative scoring approach to an absolute scoring approach when assigning a member's credit rating, the proposed rule change would enable FICC to generate credit ratings for members that are more reflective of the members' default risk, which would improve FICC's membership monitoring process and promote robust risk management, consistent with the objectives and principles of Section 805(b) of the Clearing Supervision Act cited above.

The proposed enhancements to the CRRM are consistent with Rule 17Ad-22(e)(3)(i) under the Act, which was recently adopted by the Commission.<sup>20</sup> Rule 17Ad-22(e)(3)(i) will require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to maintain a sound risk management framework for comprehensively managing risks that arise in or are born by FICC, which includes . . . systems designed to identify, measure, monitor and manage the range of risks that arise in or are borne by FICC.<sup>21</sup> The proposed enhancements to the CRRM have been designed to assist FICC in identifying, measuring, monitoring and managing the credit risks to FICC posed by its members. The proposed enhancements to the CRRM accomplish this by (i) expanding the CRRM's applicability to a wider group of members to include members that are foreign banks or trust companies, (ii) enabling the CRRM to

take into account relevant qualitative factors in an automated and more effective manner when monitoring the credit risks presented by FICC's members and (iii) enabling the CRRM to generate credit ratings for members that are more reflective of the members' default risk by shifting to an absolute scoring approach, all of which would improve FICC's membership monitoring process overall. Therefore, FICC believes the proposed enhancements to the CRRM would assist FICC in identifying, measuring, monitoring and managing risks that arise in or are born by FICC, consistent with the requirements of Rule 17Ad-22(e)(3)(i).

The proposed rule change to Section 7 of GSD Rule 3 and Section 6 of MBSD Rule 3 with respect to the scope of information that may be requested by FICC from its members has been designed to be consistent with Rule 17Ad-22(e)(19) under the Act, which was recently adopted by the Commission.<sup>22</sup> Rule 17Ad-22(e)(19) will require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to identify, monitor, and manage the material risk to FICC arising from arrangements in which firms that are indirect participants in FICC rely on the services provided by GSD Members and MBSD Members to access FICC's payment, clearing, or settlement facilities.<sup>23</sup> By expressly reflecting in the Rules what is already FICC's current practice associated with its request for additional reporting of a GSD Member's or MBSD Member's financial or operational conditions to state that such request may include information regarding the businesses and operations of the member, as well as its risk management practices with respect to services of FICC utilized by the member for another Person, this proposed rule change would help enable FICC to have rule provisions that are reasonably designed to identify, monitor and manage the material risks to FICC arising from tiered participation arrangements consistent with Rule 17Ad-22(e)(19).

#### III. Date of Effectiveness of the Advance Notice, 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

<sup>20</sup> 17 CFR 240.17Ad-22(e)(3)(i). The Commission adopted amendments to Rule 17Ad-22, including the addition of new subsection 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). FICC is a "covered clearing agency" as defined by the new Rule 17Ad-22(a)(5) and must comply with new subsection (e) of Rule 17Ad-22 by April 11, 2017. *Id.*

<sup>21</sup> *Id.*

<sup>22</sup> 17 CFR 240.17Ad-22(e)(19). *Id.*

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

<sup>18</sup> 12 U.S.C. 5464(b)

<sup>19</sup> *Id.*

Commission is received. The clearing agency 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 agency with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the advance notice is filed, or the date further information requested by the Commission is received, if the Commission notifies the clearing agency in writing that it does not object to the proposed change and authorizes the clearing agency to implement the proposed change on an earlier date, subject to any conditions imposed by the Commission.

The clearing agency shall post notice on its Web site of proposed changes that are implemented.

The proposal shall not take effect until all regulatory actions required with respect to the proposal are completed.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the Advance Notice is consistent with the Clearing Supervision 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](mailto:rule-comments@sec.gov). Please include File Number SR-FICC-2017-804 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-FICC-2017-804. 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 Advance Notice that are filed with the Commission, and all written communications relating to the

Advance Notice 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 FICC 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-FICC-2017-804 and should be submitted on or before April 28, 2017.

By the Commission.

**Eduardo A. Aleman,**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-80399; File No. SR-BatsBZX-2017-10]

### Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Order Approving a Proposed Rule Change, as Modified by Amendments No. 1 and No. 2, To List and Trade Shares of the iShares iBonds Dec 2024 AMT-Free Muni Bond ETF, iShares iBonds Dec 2025 AMT-Free Muni Bond ETF, and iShares iBonds Dec 2026 AMT-Free Muni Bond ETF of the iShares U.S. ETF Trust Under Exchange Rule 14.11(i)

April 7, 2017.

#### I. Introduction

On January 31, 2017, Bats BZX Exchange, Inc. ("Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 ("Act")<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> a proposed rule change to list and trade shares of the iShares iBonds Dec 2024 AMT-Free Muni Bond ETF, iShares iBonds Dec 2025 AMT-Free Muni Bond ETF, and iShares iBonds Dec 2026 AMT-Free Muni Bond ETF (each a "Fund" or,

collectively, the "Funds") of the iShares U.S. ETF Trust ("Trust") under Exchange Rule 14.11(i).<sup>4</sup> The proposed rule change was published for comment in the **Federal Register** on February 21, 2017.<sup>5</sup> On March 28, 2017, the Exchange filed Amendment No. 1 to the proposed rule change, which replaced the original proposal in its entirety, and on March 29, 2017, the Exchange filed Amendment No. 2 to the proposed rule change.<sup>6</sup> The Commission has received no comment letters on the proposed rule change. The Commission is approving the proposed rule change, as modified by Amendments No. 1 and No. 2.

#### II. The Exchange's Description of the Proposed Rule Change<sup>7</sup>

The Exchange proposes to list and trade the Shares under Exchange Rule 14.11(i), which governs the listing and trading of Managed Fund Shares on the Exchange. The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities.<sup>8</sup>

The Shares will be offered by the Trust,<sup>9</sup> which is established as a

<sup>4</sup> The shares of the Funds are referred to herein as the "Shares."

<sup>5</sup> See Securities Exchange Act Release No. 80036 (February 14, 2017), 82 FR 11278.

<sup>6</sup> The amendments to the proposed rule change are available at: <https://www.sec.gov/comments/sr-batsbzx-2017-10/batsbzx201710.htm>. In Amendment No. 1, the Exchange clarified the operation of the portfolio diversification requirements and its description of how the Funds' net asset values will be calculated. In Amendment No. 2, the Exchange affirmed that: (1) All statements and representations made in the proposed rule change regarding (a) the description of the portfolio, (b) limitations on portfolio holdings or reference assets, or (c) the applicability of Exchange rules and surveillance procedures shall constitute continued listing requirements for listing the Shares on the Exchange; (2) the issuer has represented to the Exchange that it will advise the Exchange of any failure by a Fund to comply with the continued listing requirements; (3) the Exchange will surveil for compliance with the continued listing requirements; and (4) if a Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under Exchange Rule 14.12. Each of the amendments is a technical amendment, and none of them is subject to notice and comment.

<sup>7</sup> The Commission notes that additional information regarding the Trust, the Funds, their investments, and the Shares, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings disclosure policies, calculation of net asset value ("NAV"), distributions, and taxes, among other things, can be found in Amendment No. 1 and the Registration Statement, as applicable. See Amendment No. 1, *supra* note 6, and Registration Statement, *infra* note 9.

<sup>8</sup> See Amendment No. 1, *supra* note 6, at 39.

<sup>9</sup> The Trust is registered with the Commission as an open-end investment company and has filed a registration statement on behalf of the Funds on

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.