

testing, which will be maintained and preserved in an easily accessible place for a period of not less than five years, the first two years in an appropriate office of the Adviser, and be available for inspection by the staff of the Commission.

For the Commission, by the Division of Investment Management, under delegated authority.

**Eduardo A. Aleman,**

*Assistant Secretary.*

[FR Doc. 2017-26885 Filed 12-12-17; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-82232; File No. SR-OCC-2017-005]

### Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change Related to a Comprehensive Risk Management Framework

December 7, 2017.

On October 10, 2017, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-OCC-2017-005 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder.<sup>2</sup> The proposed rule change was published for comment in the **Federal Register** on October 25, 2017.<sup>3</sup> The Commission did not receive any comment letters on the proposed rule change. For the reasons discussed below, this order approves the proposed rule change.

#### I. Description of the Proposed Rule Change<sup>4</sup>

OCC proposes to adopt a new Risk Management Framework (“RMF”) document. The purpose of the RMF is to describe OCC’s framework for comprehensive risk management, including OCC’s framework to identify, measure, monitor, and manage all risks faced by OCC in the provision of clearing, settlement, and risk management services. More specifically, the RMF would establish the context for OCC’s risk management framework, outline OCC’s risk management

philosophy, describe OCC’s Risk Appetite Framework and use of Risk Tolerances,<sup>5</sup> describe the governance arrangements that implement risk management, outline OCC’s identification of Key Risks,<sup>6</sup> and describe OCC’s program for enterprise-wide risk management, including the “three lines of defense” structure (discussed below), and describe OCC’s approach to risk monitoring, assessment, and reporting. As a single risk management framework addressing risks across all facets of OCC’s business, OCC believes that the RMF would foster its compliance with the requirements of the CCA rules,<sup>7</sup> and in particular the requirement of Rule 17Ad-22(e)(3)<sup>8</sup> that it maintain a sound framework for comprehensively managing risks.

#### A. Context of OCC’s Risk Management Framework

The RMF would begin by establishing the context for OCC’s risk management framework. More specifically, OCC is a Systemically Important Financial Market Utility (“SIFMU”)<sup>9</sup> that serves a critical role in financial markets as the sole central counterparty (“CCP”) that provides clearance and settlement services for U.S. listed options and guarantees the obligations associated with the contracts that it clears. OCC acknowledges its role as a SIFMU in promoting financial stability for market participants, investors, and the economy and that it must therefore maintain a sound risk management framework for comprehensively managing the risks that it presents.

#### B. OCC’s Risk Management Philosophy

OCC states that the proposed RMF would describe its risk management philosophy. As a SIFMU, OCC must be mindful of the public interest and its

<sup>5</sup> Under the proposed RMF, “Risk Tolerances” would be defined as the application of risk appetite to a specific sub-category or aspect of a Key Risk, typically in quantitative form, used to set an acceptable level of risk.

<sup>6</sup> OCC’s Key Risks are described below in the discussion covering OCC’s identification of its material risks.

<sup>7</sup> On September 28, 2016, the Commission adopted amendments to Exchange Act Rule 17Ad-22 and added new Exchange Act Rule 17Ab2-2 pursuant to Section 17A of the Act and the Payment, Clearing and Settlement Supervision Act of 2010 (“Clearing Supervision Act”) to establish enhanced standards for the operation and governance of those clearing agencies registered with the Commission that meet the definition of a “covered clearing agency,” as defined by Exchange Act Rule 17Ad-22(a)(5) (collectively, the new and amended rules are herein referred to as the “CCA rules”).

<sup>8</sup> 17 CFR 240.17Ad-22(e)(3).

<sup>9</sup> The Financial Stability Oversight Council designated OCC a SIFMU on July 18, 2012 pursuant to the Clearing Supervision Act. See 12 U.S.C. 5463.

obligation to promote financial stability, reduce the potential for systemic contagion, and support the smooth functioning of the U.S. financial markets. Furthermore, as a CCP, OCC concentrates financial risks for the markets it serves by acting as the CCP for all of the transactions that it clears. As a result of this concentration, OCC’s primary objective is to ensure that it properly manages the financial risks associated with functioning as a CCP, which primarily relate to potential clearing member default scenarios.

As a CCP, OCC’s daily operations, among other things, involve managing financial, operational, and business risks. In managing these risks, OCC’s daily operations—which are guided by policies, procedures, and controls—are designed to ensure that financial exposures and service disruptions are within acceptable limits set by OCC as part of its Risk Appetite Framework (“RAF”) as described below.

#### C. Risk Appetite Framework

The proposed RMF would describe OCC’s RAF and use of Risk Tolerances. The purpose of the RAF is to establish OCC’s overall approach to managing risks at the enterprise level in an effective and integrated fashion. The RAF establishes the level and types of Key Risks, described in further detail below, that OCC is willing and able to assume in accordance with OCC’s mission as a SIFMU. Under the RAF, Risk Appetite Statements<sup>10</sup> would be used to express OCC’s judgment, for each of OCC’s Key Risks, regarding the level of risk that OCC is willing to accept related to the provision of CCP services. These statements would be qualitative indications of appetite that set the tone for OCC’s approach to risk taking, and are indicative of the level of resources or effort OCC puts forth to prevent or mitigate the impact of a Key Risk.

Under the RMF, Risk Appetite Statements would be set annually by each department associated with a Key Risk in cooperation with OCC’s Enterprise Risk Management department (“ERM”) according to applicable procedures. OCC’s risk appetite levels would be classified into four categories:

1. *No appetite*: OCC is unwilling to deliberately accept any level of risk.
2. *Low appetite*: OCC devotes significant resources to managing risk but may choose to accept certain risks

<sup>10</sup> Under the proposed RMF, “Risk Appetite Statement” would be defined as a statement that expresses OCC’s judgment, for each of OCC’s Key Risks, regarding the level of risk OCC is willing to accept related to the provision of CCP services.

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Securities Exchange Act Release No. 34-81909 (Oct. 19, 2017), 82 FR 49456 (Oct. 25, 2017) (File No. SR-OCC-2017-005) (“Notice”).

<sup>4</sup> The subsequent description of the proposed rule change is substantially excerpted from OCC’s description in the Notice. See Notice, 82 FR at 49456-49461.

that do not materially affect core clearing and settlement because the level of resources that OCC would be required to put forth to mitigate the risks would be impractical.

3. *Moderate appetite:* OCC is willing to engage in certain activities that pose risks because those activities may bring longer-term efficiencies or result in business opportunities even though the activities or new businesses may pose new risks to OCC.

4. *High appetite:* OCC is willing to implement a new high-risk process or business opportunity; however, it is unlikely OCC would apply this level of appetite to a Key Risk absent a compelling, urgent business need.

Under the RMF, OCC's Board would have ultimate responsibility for reviewing and approving the Risk Appetite Statements in connection with each Key Risk on an annual basis upon recommendation of OCC's Management Committee.

The Risk Appetite Statements would allow OCC to carefully calibrate the levels of risk it accepts for each of its Key Risks to be consistent with OCC's core mission of promoting financial stability in the markets it serves. Accordingly, the RAF helps to ensure that OCC has an effective and comprehensive framework for managing its Key Risks (e.g., legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by OCC).<sup>11</sup>

In addition to Risk Appetite Statements, the RMF would require that OCC assign Risk Tolerances to the Key Risks contained within the RMF as approved by OCC's Board. While the Risk Appetite Statements would be more high-level and principles-based, Risk Tolerances would comparatively be more granular and represent the application of OCC's risk appetite to specific sub-categories or aspects of Key Risks. The purpose of the proposed Risk Tolerances is to help ensure that OCC sets acceptable levels of risk within those specified sub-categories of Key Risks. Risk Tolerances would be stated in either quantitative or qualitative terms, depending on the nature of the risk and OCC's ability to measure it.

Under the RMF, each department would be required to establish Risk Tolerances at least annually for sub-categories of Key Risks that are within their relevant domains of responsibility and would be responsible for managing applicable risks within established tolerance levels. ERM staff would

monitor Risk Tolerances through quantitative metrics, where applicable, and compile such monitoring in a report that the Chief Risk Officer shall present to OCC's Management Committee and Board (or a committee thereof) at least quarterly. In addition, the RMF would require that OCC's Board evaluate its Risk Tolerances at least annually, and more frequently if necessary as a result of changes to products, processes, market conventions or other changes to OCC's material risks.

#### D. Identification of Key Risks

The proposed RMF would identify risks that could affect OCC's ability to perform services as expected, and the process for identifying such risks would take a broad view to include: (i) Direct financial and operational risks that may prevent the smooth functioning of CCP services; (ii) reputational risks that could undermine the perception of OCC as a sound pillar in the financial market; and (iii) the risks OCC faces from third parties, such as custodians and settlement banks, that are critical to the design and operation of OCC's infrastructure and risk management. OCC believes that identifying Key Risks in this manner would facilitate its ability to manage comprehensively the legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by it. Based on this identification process, the RMF would define OCC's Key Risks as described below.

#### Financial Risk

The RMF would indicate that financial risk encompasses many aspects of risk at OCC, including the risks that a Clearing Member will be unable to meet its obligations when due or that OCC will not maintain sufficient financial resources to cover exposures (i.e., credit risk), the risk that OCC will not maintain sufficient liquid resources to meet its same day and, where appropriate, intraday and multiday settlement of payment obligations (i.e., liquidity risk), the risk that OCC will incur losses on overnight investments (i.e., investment risk), and the risk that financial models are inaccurate (i.e., model risk).

The proposed RMF would require OCC's credit risk management framework to encompass policies and procedures for maintaining sufficient prefunded resources in the form of margin and Clearing Fund deposits, accepting collateral from participants that is low-risk and high-quality, monitoring the creditworthiness and operational reliability of all counterparties, including participants,

custodians, settlement banks, liquidity providers, and linked financial market utilities ("FMUs"), and maintaining a waterfall of resources to be used in the event of participant default and a process for replenishing resources.

In addition, the RMF would require OCC's liquidity risk framework to encompass sizing liquidity resources to cover liquidity needs in the event of the default of the largest Clearing Member Group, forecasting daily settlement needs under normal market conditions, maintaining liquid resources in the form of cash and committed facilities, maintaining a contingency funding plan and periodically reviewing the size of liquidity resources, maintaining liquidity resources at creditworthy custodians and monitoring the financial and operational performance of financial institutions and committed liquidity facilities, and investing liquidity resources in safe overnight investments or at a Federal Reserve Bank.

Moreover, the RMF would require OCC to address investment risks by maintaining an account at a Federal Reserve Bank, which bears no investment risk, and investing funds not held at the Federal Reserve Bank in high-quality liquid assets. The RMF would also require OCC to manage model risk through a model development program, independent model validation and strong governance arrangements for the approval of new models or models with material changes in accordance with relevant policies.

#### Operational Risk

The RMF would define operational risk as the risk of disruptions in OCC's CCP services due to: (i) Deficiencies in internal controls, processes or information systems; (ii) human error or misconduct; or (iii) external events or intrusions. The definition of operational risk would also cover deficiencies related to information technology ("IT"), such as data security and IT systems reliability. To reflect the importance OCC assigns to managing IT risks, the RMF would also categorize IT risk as a separate Key Risk, discussed below.

The RMF would also assert that OCC manages operational risks in number of ways, including that OCC: (i) Maintains an Enterprise Project Management Program that performs initial assessments of proposed projects and manages project execution, to help ensure that proper oversight exists during the initiation, planning, execution, and delivery of OCC corporate projects; (ii) maintains a Business Continuity Program to support

<sup>11</sup> OCC's Key Risks are described below in the discussion covering OCC's identification of its material risks.

continuance of critical services in the event of a catastrophic loss of infrastructure and/or staff (including a Crisis Management Plan, which outlines OCC's processes for decision-making in crisis or emergency circumstances); (iii) maintains a comprehensive third-party risk management program which includes requirements for onboarding and ongoing monitoring of third-parties on which OCC relies (such as vendors, settlement banks and FMUs with linkages to OCC) performed by various areas of the organization, including National Operations, Collateral Services, Credit Risk, and ERM; (iv) provides training and development through its Human Resources Department to ensure staff maintains and develops the necessary knowledge and skills to perform their jobs; and (v) conducts training on business ethics and OCC's Code of Conduct.

#### Operational Risk—Information Technology

The RMF also would address operational risks specifically related to IT as a distinct Key Risk. Operational risk related to IT would be defined as the risk that inadequate levels of system functionality, confidentiality, integrity, availability, capacity, or resiliency for systems that support core clearing, settlement, or risk management services or critical business functions results in disruptions in OCC services. In addition to the ways described above that OCC manages operational risks generally, the RMF would also provide that OCC manages IT operational risks by maintaining: (i) A Quality Standards Program, which includes targets that set performance standards for systems operations; (ii) a cybersecurity program; and (iii) a program to maintain system functionality and capacity.

#### Legal Risk

The RMF would define legal risk as the risk that OCC's by-laws, rules, policies, and procedures do not provide for a well-founded, clear, transparent, and enforceable legal basis for each aspect of its activities in all relevant jurisdictions. The RMF would also provide that OCC manages legal risk by: (i) Maintaining rules, policies, and contracts that are consistent with applicable laws and regulations; and (ii) maintaining legal agreements that establish counterparty obligations regarding the material aspects of its clearing, settlement, and risk management services, including, but not limited to, settlement finality, vendor performance, exchange performance, options exercise, and cross-margining obligations.

#### General Business Risk

The RMF would define general business risk as the risk of any potential impairment of OCC's financial condition due to declines in its revenue or growth in its expenses arising from OCC's administration and operation as a business enterprise (as opposed to a participant's default), resulting in expenses that exceed revenues and losses that must be charged against OCC's capital.

The RMF would provide that OCC manages general business risk by: (i) Maintaining a target capital level of liquid net assets funded by equity equal to the greater of six-months' operating expenses or the amount sufficient to ensure a recovery or orderly wind-down of OCC's operations as set forth in OCC's recovery and wind-down plan, and a plan that provides for capital replenishment in the event of non-default losses in excess of target capital; (ii) maintaining a corporate planning program to manage new business activity; and (iii) actively managing the public perception of OCC.

#### E. Risk Management Governance

The RMF would describe the governance arrangements through which OCC implements its risk management philosophy. These governance arrangements would include the responsibilities of the Board, the Board's committees, and management in establishing and executing OCC's risk management framework. These responsibilities are described in further detail below.

The RMF would provide that OCC's risk governance framework follows a hierarchical structure that begins with the Board, which has ultimate oversight responsibility for OCC's risk management activities. The Board performs an oversight role to help ensure that OCC is managed and operated in a manner consistent with OCC's regulatory responsibilities as a SIFMU providing clearance and settlement services. The Board also is responsible for helping ensure that OCC has governance arrangements that, among other things, prioritize the safety and efficiency of OCC through the proposed risk management framework. Moreover, under the RMF, the Board is responsible for overseeing OCC's risk management policies, procedures, and systems designed to identify, measure, monitor, and manage risks consistent within the Risk Appetite Statements and Risk Tolerances approved by the Board. The RMF also provides that the Board is responsible for overseeing and approving OCC's recovery and orderly

wind-down plan (consistent with OCC's Board of Directors Charter).

To carry out these responsibilities, the RMF would indicate that the Board has established Committees to assist in overseeing OCC's Key Risks. These Committees are: (i) The Audit Committee; (ii) the Compensation and Performance Committee; (iii) the Governance and Nominating Committee; (iv) the Risk Committee; and (v) the Technology Committee. The responsibilities of these committees to manage OCC's Key Risks are outlined in their respective committee charters.<sup>12</sup>

The RMF would also provide that OCC's Management Committee is responsible for annually reviewing and approving the RMF—and the Risk Appetite Statements and Risk Tolerances established thereunder—and recommending further approval thereof to the Board. The Management Committee would also review reports related to metrics for assessing Risk Tolerances to determine whether OCC's Key Risks are behaving within established tolerances and take or recommend action as needed to return Key Risks to their appropriate levels and escalate exceptions to Risk Tolerances and Risk Appetite Statements to relevant Board committees. The Management Committee would also be permitted to establish working groups to assist it in the management of Key Risks.

#### F. Risk Management Practice

The RMF would describe OCC's program for enterprise-wide risk management. The internal structures for risk management described in the proposed RMF are intended to follow programs generally accepted in the financial services industry, including the "three lines of defense" model (*i.e.*, front-line employees, enterprise risk/compliance functions and internal audit) and a program for internal controls that includes risk assessment and reporting.

#### "Three Lines of Defense"

To maintain a resilient risk management and internal control infrastructure, the RMF would formalize OCC's "three lines of defense" model, which allows OCC to manage its control infrastructure with clarity of ownership and accountability. The first line of defense consists of OCC's operational business units, including Financial Risk Management, National Operations, technology, legal, regulatory affairs and

<sup>12</sup> OCC's Board and Board committee charters are available on OCC's public website: <https://www.theocc.com/about/corporate-information/what-is-occ.jsp>.

corporate functions such as human resources, finance, accounting, and project management. The first line is responsible and accountable for designing, owning, and managing risks by maintaining policies, procedures, processes, and controls to manage relevant risks. The first line would also be responsible and accountable for internal controls and implementing corrective action to address control deficiencies.

The first line is supported and monitored by the second line of defense, which consists of the ERM, Compliance, Security Services, and Model Validation Group functions. The second line is an oversight function and is responsible for designing, implementing and maintaining an enterprise-wide risk management and compliance program and tools to assess and manage risk at the enterprise level. The second line would also work with the first line to assess risks and establish policies and guidelines, and advise, monitor, and report on the first line's effectiveness at managing risk and maintaining and operating a resilient control infrastructure. The second line reports to OCC's Management Committee and Board (or committee thereof) on the first line of defense's effectiveness at managing risk and compliance and an assessment of whether OCC's services are being delivered within Risk Appetite Statements and Risk Tolerances.

The third line of defense consists of OCC's internal audit function. The third line reports to the Audit Committee of the Board and is accountable for designing, implementing, and maintaining a comprehensive audit program that allows senior management and the Board to receive independent and objective assurance that the quality of OCC's risk management and internal control infrastructure is consistent with OCC's risk appetite and Risk Tolerances. The RMF also would require that OCC's Internal Audit department maintains a diverse and skilled team of professionals with a variety of business, technology, and audit skills, and perform all of its activities in compliance with the Institute of Internal Auditors' standards found in the International Professional Practices Framework.

The "three lines of defense" model is designed to provide for a robust governance structure that distinguishes among the three lines involved in the effective and comprehensive management of risk at OCC: (i) The functions that own and manage risks; (ii) the functions that oversee and provide guidance on the management of risks; and (iii) and the functions that

provide independent and objective assurance of the robustness and appropriateness of risk management and internal controls.

#### Risk Assessments

In furtherance of the "three lines of defense" model, the RMF would provide for risk identification and assessment programs described below to identify, measure, and monitor current and emerging risks at OCC. Findings or recommendations that result from the assessments would be documented, monitored, and escalated through the appropriate governance according to applicable OCC policies and procedures.

One such assessment—the Enterprise Risk Assessment—would be conducted by OCC's first line of defense in conjunction with ERM. The Enterprise Risk Assessment would analyze risks based on: (i) Inherent Risk;<sup>13</sup> (ii) quality of risk management; and (iii) Residual Risk<sup>14</sup> to provide OCC information on the quantity of risk in a certain functional area or business area, and provide a mechanism to prioritize risk mitigation activities. ERM would use analysis of Residual Risk in conjunction with metrics related to Risk Tolerances to develop a risk profile and determine whether a Key Risk is within appetite and provide OCC's Management Committee and Board (or committee thereof) information on the quantity of risk in a certain functional area or business area, which would provide a mechanism to prioritize risk mitigation activities.

Another such assessment—the Scenario Analysis Program—would be a method for identifying risks that may not be otherwise captured in OCC's risk statements. ERM, in cooperation with the first line of defense, would design simulations of potential disruptions, and business unit staff would be able to identify risks that may not have been previously uncovered or identify weaknesses in current controls. ERM would include potential risks identified through the Scenario Analysis Program in its analysis of, and reporting on, the quantity of risk within a certain Key Risk and whether the Key Risk is within appetite.

A third assessment—the IT Risk Assessment Program—would be conducted by OCC's Security Services

<sup>13</sup> Under the RMF, "Inherent Risk" would be defined as the absolute level of risk exposure posed by a process or activity prior to the application of controls or other risk-mitigating factors.

<sup>14</sup> Under the RMF, "Residual Risk" would be defined as the level of risk exposure posed by a process or activity after the application of controls or other risk-mitigating factors.

department prior to the procurement, development, installation, and operation of IT services and systems. This assessment would be triggered by certain events that may affect the nature or level of IT risks OCC faces, such as evaluation or procurement of a new system or technology, changes in OCC business processes that affect current services and systems, and the emergence of new threats that subvert existing controls and that require a new technology mitigation. OCC would also conduct periodic assessments.

A fourth assessment would be conducted by OCC's compliance function to identify and measure regulatory compliance risks. The assessment would also provide OCC's compliance function with a basis for prioritizing testing and training activities.

#### Risk Reporting

Under the RMF, ERM would be responsible for completing a review and reporting process that provides OCC's Management Committee and Board (or committee thereof) with the information necessary to fulfill their obligations for risk management and oversight of risk management activities, respectively. This reporting would be designed to assist OCC's Management Committee and Board (or committee thereof) in understanding the most significant risks faced by OCC from a process perspective and determining whether Risk Tolerances are being managed in accordance with Risk Appetite Statements. On a quarterly basis, ERM would provide a risk report with a summary analysis of risk appetite and risk profile that includes analysis of Residual Risks from the Enterprise Risk Assessment program, reporting on Risk Tolerances and recommendations for prioritization of risk mitigation activities. The reporting process would indicate procedures for escalation in the event of a breach of Risk Tolerance.

#### G. Control Activities

Under the RMF, the Compliance Department would be responsible for maintaining an inventory of all business processes and associated controls. OCC would also provide guides to assist staff in documenting their control activities in a consistent way and periodically conduct training on the importance of a strong risk and control environment. In addition, on at least an annual basis, the Compliance Department would be required to conduct training to assist OCC staff in understanding their respective responsibilities in implementing OCC's risk and control environment.

## II. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act 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.<sup>15</sup> After carefully considering the proposed rule change, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to OCC. More specifically, the Commission finds that the proposal is consistent with Section 17A(b)(3)(F) of the Act<sup>16</sup> and Rule 17Ad-22(e)(3) under the Act.<sup>17</sup>

### A. Consistency With Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires that the rules of a registered clearing agency be designed to do, among other things, the following: (1) Promote the prompt and accurate clearance and settlement of securities transactions; (2) assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible; and (3) in general protect investors and the public interest.<sup>18</sup>

As described above, the RMF would address and clarify different ways OCC comprehensively manages Key Risks, which include legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by OCC. For example, the RMF would describe OCC's overall framework for comprehensive risk management, including OCC's framework to identify, measure, monitor, and manage all risks faced by OCC in the provision of clearing, settlement, and risk management services. The RMF would also establish the context for OCC's risk management framework, outline OCC's risk management philosophy, describe OCC's Risk Appetite Framework and use of Risk Tolerances, describe the governance arrangements that implement risk management, outline OCC's identification of Key Risks, and describe OCC's program for enterprise-wide risk management, including the "three lines of defense" structure and OCC's approach to risk monitoring, assessment, and reporting.

By providing these clarifications and adding transparency to OCC's risk management practices, the RMF is designed to help OCC be in a better position to identify, measure, monitor, and manage the various risks that may arise in or be borne by OCC. By better identifying, measuring, monitoring, and managing the risks that may arise in or be borne by OCC, the RMF is designed to help reduce the possibility that OCC fails in providing its critical operations and services to the financial markets. By better positioning OCC to continue its critical operations and services, and mitigating the risk of financial loss contagion caused by its failure, the RMF is designed to promote the prompt and accurate clearance and settlement of securities transactions and help assure the safeguarding of securities and funds which are in the custody or control of OCC, or for which OCC is responsible. As a result, the Commission finds that the proposed rule change, in general, protects investors and the public interest. Accordingly, the Commission believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.<sup>19</sup>

### B. Consistency With Rule 17Ad-22(e)(3) of the Act

Rule 17Ad-22(e)(3) under the Act requires, in part, that a covered clearing agency "establish, implement, maintain and enforce written policies and procedures reasonably designed to . . . [m]aintain a sound risk management framework for comprehensively managing legal, credit, liquidity, operational, general business, investment, custody, and other risks that arise in or are borne by the covered clearing agency, which . . . [i]ncludes risk management policies, procedures, and systems designed to identify, measure, monitor, and manage the range of risks that arise in or are borne by the covered clearing agency, that are subject to review on a specified periodic basis and approved by the board of directors annually . . ."<sup>20</sup>

As described above, the RMF describes OCC's comprehensive framework for identifying, measuring, monitoring, and managing the risks that arise within OCC or are borne by it, including legal, credit, liquidity, operational, general business, investment, and custody risk. For example, the RMF describes OCC's framework for identifying its Key Risks and the relevant policies that OCC maintains to address those risks.

The RMF also describes OCC's RAF and use of Risk Appetite Statements and Risk Tolerances to help ensure that OCC sets appropriate levels and types of Key Risks that OCC is willing and able to assume in accordance with the performance of its critical role in the financial markets. For example, the use of Risk Appetite Statements helps ensure that OCC can carefully calibrate the levels of risk it accepts for each Key Risk in a manner consistent with OCC's core mission of promoting financial stability in the markets it serves. In addition, the use of Risk Tolerances helps ensure that OCC sets acceptable levels of risk within specified sub-categories of Key Risks, and that also may be used to set thresholds for acceptable variability in risk levels and to provide clear and transparent escalation triggers when the thresholds are breached.

Moreover, the Commission believes the RMF would clarify the foundation of OCC's risk management practices by describing OCC's enterprise-wide risk management framework. This framework incorporates established principles employed across the financial services industry such as the "three lines of defense" model for enterprise-wide risk management to help ensure that OCC maintains and operates a resilient, effective, and reliable risk management and internal control infrastructure that assures risk management and processing outcomes expected by OCC stakeholders. This framework also describes how OCC's second line of defense monitors the risks that arise in or are borne by OCC through a variety of risk assessment, risk reporting, and internal control management activities. Finally, the RMF also states that the RMF and related documents are subject to annual board approval.

For the above specified reasons, the Commission therefore believes that the proposed rule change: (i) Provides a variety of risk assessment, risk reporting, and internal control management activities; and (ii) provides for a sound, comprehensive framework for identifying, measuring, monitoring, and managing the range of risks that arise in or are borne by OCC. The Commission therefore finds that these changes are consistent with the requirements of Rule 17Ad-22(e)(3).

## III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed change is consistent with the requirements of the Act, and in particular, with the requirements of

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

<sup>16</sup> 15 U.S.C. 78q-1(b)(3)(F).

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

<sup>18</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>19</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>20</sup> 17 CFR 240.17Ad-22(e)(3).

Section 17A of the Act<sup>21</sup> and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>22</sup> that the proposed rule change (SR-OCC-2017-005) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority,<sup>23</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

[FR Doc. 2017-26822 Filed 12-12-17; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-82230; File No. SR-NYSE-2017-64]

### Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Extend the Pilot Period for the Exchange's Retail Liquidity Program Until June 30, 2018

December 7, 2017.

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> notice is hereby given that on November 30, 2017, New York Stock Exchange LLC ("NYSE" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to extend the pilot period for the Exchange's Retail Liquidity Program (the "Retail Liquidity Program" or the "Program"), which is currently scheduled to expire on December 31, 2017, until June 30, 2018. The proposed rule change is available on the Exchange's website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission's Public Reference Room.

<sup>21</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>22</sup> 15 U.S.C. 78s(b)(2).

<sup>23</sup> 17 CFR 200.30-3(a)(12).

<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.

#### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization 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 those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

##### A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The purpose of this filing is to extend the pilot period of the Retail Liquidity Program, currently scheduled to expire on December 31, 2017,<sup>4</sup> until June 30, 2018.

###### Background

In July 2012, the Commission approved the Retail Liquidity Program on a pilot basis.<sup>5</sup> The Program is designed to attract retail order flow to the Exchange, and allows such order flow to receive potential price improvement. The Program is currently limited to trades occurring at prices equal to or greater than \$1.00 per share. Under the Program, Retail Liquidity Providers ("RLPs") are able to provide potential price improvement in the form of a non-displayed order that is priced better than the Exchange's best protected bid or offer ("PBBO"), called a Retail Price Improvement Order ("RPI"). When there is an RPI in a particular security, the Exchange disseminates an indicator, known as the Retail Liquidity Identifier, indicating that such interest exists. Retail Member Organizations ("RMOs") can submit a Retail Order to the Exchange, which would interact, to the extent possible, with available contra-side RPIs.

The Retail Liquidity Program was approved by the Commission on a pilot basis. Pursuant to NYSE Rule 107C(m), the pilot period for the Program is scheduled to end on December 31, 2017.

<sup>4</sup> See Securities Exchange Act Release No. 80844 (June 1, 2017), 82 FR 26562 (June 7, 2017) (SR-NYSE-2017-26).

<sup>5</sup> See Securities Exchange Act Release No. 67347 (July 3, 2012), 77 FR 40673 (July 10, 2012) ("RLP Approval Order") (SR-NYSE-2011-55).

Proposal To Extend the Operation of the Program

The Exchange established the Retail Liquidity Program in an attempt to attract retail order flow to the Exchange by potentially providing price improvement to such order flow. The Exchange believes that the Program promotes competition for retail order flow by allowing Exchange members to submit RPIs to interact with Retail Orders. Such competition has the ability to promote efficiency by facilitating the price discovery process and generating additional investor interest in trading securities, thereby promoting capital formation. The Exchange believes that extending the pilot is appropriate because it will allow the Exchange and the Commission additional time to analyze data regarding the Program that the Exchange has committed to provide.<sup>6</sup> As such, the Exchange believes that it is appropriate to extend the current operation of the Program.<sup>7</sup> Through this filing, the Exchange seeks to amend NYSE Rule 107C(m) and extend the current pilot period of the Program until June 30, 2018.

###### 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,<sup>8</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>9</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. The Exchange believes that extending the pilot period for the Retail Liquidity Program is consistent with these principles because the Program is reasonably designed to attract retail order flow to the exchange environment, while helping to ensure that retail investors benefit from the better price that liquidity providers are willing to give their orders. Additionally, as previously stated, the competition promoted by the Program may facilitate the price discovery process and potentially generate additional investor interest in trading securities. The extension of the pilot

<sup>6</sup> See *id.* at 40681.

<sup>7</sup> Concurrently with this filing, the Exchange has submitted a request for an extension of the exemption under Regulation NMS Rule 612 previously granted by the Commission that permits it to accept and rank the undisplayed RPIs. See Letter from Martha Redding, Asst. Corporate Secretary, NYSE Group, Inc. to Brent J. Fields, Secretary, Securities and Exchange Commission, dated November 30, 2017.

<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(5).