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VIA ELECTRONIC MAIL (rule-comments@sec.gov)

Vanessa A. Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: Response to SIFMA's Comment Letter to File Nos. SR-DTC-2025-003; SR-FICC-2025-006; SR-NSCC-2025-003

Dear Ms. Countryman:

The Depository Trust Company ("DTC"), Fixed Income Clearing Corporation ("FICC") and National Securities Clearing Corporation ("NSCC," and together with DTC and FICC, the "Clearing Agencies," or "Clearing Agency" when referring to one of any of the three Clearing Agencies)[1] appreciate the opportunity to submit this letter in response to a comment letter submitted by the Securities Industry and Financial Markets Association ("SIFMA")[2] to substantially similar proposals filed by the Clearing Agencies to amend their respective Systems Disconnect: Threat of Significant Impact to the Corporation's Systems rules (the "Proposal").[3]

Following is a detailed response to SIFMA's comments, which the Clearing Agencies have categorized and summarized below. Additionally, as indicated throughout the responses below, the Clearing Agencies have filed an amendment to the Proposal[4] based on many of SIFMA's comments. Although the Clearing Agencies were unable to accept every suggestion that

1 The Clearing Agencies are each a subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC operates on a shared service model with respect to the Clearing Agencies. Most corporate functions are established and managed on an enterprise-wide basis pursuant to intercompany agreements under which it is generally DTCC that provides relevant services to the Clearing Agencies.

2 Letter from Stephen Byron, Managing Director, Head of Operations, Technology, Cyber & BCP, SIFMA (Apr. 17, 2025) ("SIFMA Letter"). SIFMA also submitted an earlier, two-page letter, on April 16, 2025, requesting additional time to submit a comment letter to the Proposal and highlighting some potential concerns. Letter from Stephen Byron, Managing Director, Head of Operations, Technology, Cyber & BCP, SIFMA (Apr. 16, 2025). Since those concerns were then covered, in detail, in the follow-up SIFMA Letter, this response is only to the SIFMA Letter.

3 Securities Exchange Act Release Nos. 102712 (Mar. 21, 2025), 90 FR 13919 (Mar. 27, 2025) (SR-DTC-2025-003); 102713 (Mar. 21, 2025), 90 FR 13942 (Mar. 27, 2025) (SR-FICC-2025-006); and 102711 (Mar. 21, 2025), 90 FR 13926 (Mar. 27, 2025) (SR-NSCC-2025-003) (collectively, "Original Filings").

4 Amendment Nos. 1 to Original Filings, filed on June 20, 2025 (collectively, "Amendment No. 1").

SIFMA made, they believe that the proposed amendments address many of the concerns and, overall, make the Proposal better.[5]

I. Comments on Definitions in the Proposal

A. SIFMA states, in summary, that the Clearing Agencies' proposed changes to the definition of "Participant System Disruption" in Section 1 of the proposed rule text are too broad, capturing too many incidents, and should be limited to "substantial incidents that impact critical services" caused by "malicious cybersecurity breaches."[6]

The Clearing Agencies agree that the proposed definition of Participant System Disruption could be interpreted too broadly. The proposed definition is intended to capture only disruptions to systems connected to DTCC Systems, whether via a direct connection from the Clearing Agency member or participant (hereinafter, "Participant") or through the Participant's third-party provider. It is not intended to capture every disruption to every system of the Participant or its provider. Therefore, the Clearing Agencies have proposed to modify the definition in Amendment No. 1 to a narrower list of "incidents" and explicitly state that the systems in scope are only those "connected to DTCC Systems."

The Clearing Agencies do not agree that the scope of incidents should be narrowed further to only "substantial incidents that impact critical services" caused by "malicious cybersecurity breaches," as such a scope is too narrow. First, concepts such as "substantial," "critical," and "malicious" are subjective and would likely result in different interpretations and applications among Participants. Second, there is no direct correlation between a "substantial" or "critical" incident at a Participant and the corresponding or subsequent effect at the Clearing Agencies. For example, a Participant may deem a malware incident immaterial for its purposes, but the effect on DTCC Systems could be substantial. Third, the lack of malicious intent does not mean an incident is insignificant for either the Participant or the Clearing Agencies. For example, malfunctions and corruptions in a Participant system, even if not due to "malicious" activity, could present significant risks to both the Participant and DTCC Systems. Therefore, the Clearing Agencies believe further narrowing of the notification requirement based on such criteria would undermine the purpose and efficacy of the requirement.

B. SIFMA states, in summary, that the "specialized" requirement of the proposed definition of "Third-Party Cybersecurity Firm" in Section 1 of the proposed rule text is too complex and subjective and, instead, the requirement should be "experienced" not "specialized."[7]

The Clearing Agencies appreciate this point and agree that "experienced" is a simpler and more objective standard than "specialized." As such, the Clearing Agencies have proposed to amend the definition of Third-Party Cybersecurity Firm accordingly in Amendment No. 1.

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5 Capitalized terms not otherwise defined herein have the meaning as set forth in the respective rules of the Clearing Agencies (available at https://www.dtcc.com/legal/rules-and-procedures), the Original Filings (supra note 3), or Amendment No. 1 (supra note 4).

6 SIFMA Letter, supra note 2, at 2-4.

7 Id. at 4.

C. SIFMA states, in summary, that the "not affiliated with" language of the "Third-Party Cybersecurity Firm" in Section 1 of the proposed rule text is unclear and potentially unworkable.[8]

The Clearing Agencies appreciate this point and agree that the scope of the "not affiliated with" language in the proposed definition of Third-Party Cybersecurity Firm could be unclear. As such, the Clearing Agencies have proposed to modify that part of the definition in Amendment No. 1 to simply state that the Third-Party Cybersecurity Firm cannot be the Participant, an affiliate of the Participant, or a third-party that connects to DTCC Systems on behalf of or for the benefit of the Participant.

II. Comments on Notice and Reporting Requirements of the Proposal

A. SIFMA states, in summary, that the proposed two-hour reporting obligation in Sections 2(a) and (b) of the proposed rule text is too short, as it will divert resources from addressing the issue, and it does not allow enough time to gather all information requested or determine the effect of the incident; instead, SIFMA suggests a 36-hour notice period, which would aligned to other industry requirements and SIFMA member preference.[9]

The Clearing Agencies appreciate this concern and have given it much thought. After much consideration and internal discussion, the Clearing Agencies are not able to take SIFMA's suggestion and, instead, will retain the immediate but no less than two hours notification requirement. First, the existing requirement is "immediate" and has been so since establishing the requirement in October 2021.[10] The proposed addition of "not later than two hours after experiencing the disruption" was simply to provide context on what the Clearing Agencies meant by "immediate." Second, given the central and interconnected role that the Clearing Agencies play to the U.S. securities markets, it is imperative that they be notified of and be able to assess a Participant System Disruption as immediately as possible. The intent of the notice is not simply for the Clearing Agencies to log the event for future discussion but, rather, to make important, real-time decisions about a live incident, with the goal of mitigating any effect on the Clearing Agencies, their other participants, and the industry more broadly. Third, the Clearing Agencies appreciate that the reporting participant may not have all the information requested within two hours of discovering the disruption, which is why the proposed rule states that if the requested information is not known, then it should be reported as simply "unknown." The Clearing Agencies strongly believe it is far more important to be made aware of a potential issue sooner, with less information, than later with all the information (or, worse, never at all). For these reasons, the Clearing Agencies cannot accept the suggested change, as they believe it would severely undermine their ability to address a potentially significant and live risk as quickly as possible.

B. SIFMA states, in summary, that the requirement to report on an "unaffiliated DTCC Systems participant" under Section 2(b) of the proposed rule text is unclear, potentially unworkable, and could have unintended consequences.[11]

The Clearing Agencies appreciate this point and agree that the notification requirement in proposed Section 2(b) could be unclear. To address this issue and to make the application of the

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8 Id. at 5.

9 Id. at 3, 5-6.

10 See Securities Exchange Act Release Nos. 93278 (Oct. 8, 2021), 86 FR 57229 (Oct. 14, 2021) (SR-NSCC-2021-007); 93280 (Oct. 8, 2021), 86 FR 57208 (Oct. 14, 2021) (SR-FICC-2021-004); 93279 (Oct. 8, 2021), 86 FR 57221 (Oct. 14, 2021) (SR-DTC-2021-011).

11 SIFMA Letter, supra note 2, at 6.

rule clearer, generally, the Clearing Agencies have proposed changes in Amendment No. 1 to other sections of the rule that better reflect the entities that the rule is intended to cover (i.e., Participants connected to DTCC Systems directly and third-party service providers connected to DTCC Systems on behalf of or for the benefit of Participants). Specifically, the Clearing Agencies have proposed modifications to the definition of DTCC Systems Participant, Participant System Disruption, and are proposing an entirely new definition, Third-Party Provider, to more clearly and precisely cover a Participant's third-party service providers, and similar entities, that connect to DTCC Systems for the Participant. With these changes, the Clearing Agencies believe that the language in initially proposed Section 2(b) is no longer needed, and the section can be deleted in its entirety, as shown in Amendment No. 1.

C. SIFMA states, in summary, that the requirement to disclose notices given to others regarding the disruption under Section 2(c)(iii)(7) of the proposed rule text is inappropriate and may breach confidentiality requirements.[12]

The Clearing Agencies agree that Participants should not disclose information that they are not legally permitted to disclosure, which is why the initially proposed language in Section 2(c)(iii)(7) excludes such disclosure. Nevertheless, the Clearing Agencies have proposed in Amendment No 1 to simplify this requirement to only request copies of notices or other related information that the Participant has made public. If, though, in the event the Participant does disclose non-public information to the Clearing Agencies, whether accidentally or intentionally, such information must be kept confidential by the Clearing Agencies pursuant to their existing rules.[13]

D. SIFMA states, in summary, that the information to be reported under the proposed rule changes, generally, should be refined and limited to an "actionable purpose."[14]

The information to be requested pursuant to the rule is intended to help inform the Clearing Agencies regarding the disruption, so that they can then make an informed decision on any action they should take in response. Limiting the requested information to only what may or may not be actionable presupposes that the Clearing Agencies know what action should or should not be taken without yet having the relevant information. As such, the Clearing Agencies are not able to limit the requested information as suggested, but the Clearing Agencies do believe that the requested information is already limited to the most essential information.

E. SIFMA states, in summary, that the proposed requirement that the subject participant provide the Clearing Agencies with the Third-Party Cybersecurity Firm's report under Section 5(a)(i) of the proposed rule text is inappropriate, as it could contain sensitive information and delay reviews and responses; instead, SIFMA proposes an attestation process, in which the participant attests that the recommendations have been taken.[15]

The Clearing Agencies appreciate this point and, in response, have proposed to modify the requirement in Amendment No. 1 to allow the Participant to provide a summary of the Third-Party Cybersecurity Firm's report, in lieu of providing the report itself. That said, the Clearing Agencies note that, pursuant to their existing rules, any non-public information provided to the

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12 Id. at 6-7.

13 DTC Rule 2, Section 1; NSCC Rule 2A, Sec. 1.C; FICC-GSD Rule 2A, Section 5; FICC-MBSD Rule 2A, Section 6 (collectively, "Confidentiality Rules"), available at https://www.dtcc.com/legal/rules-and-procedures.

14 SIFMA Letter, supra note 2, at 2.

15 Id. at 8-9.

Clearing Agencies must be kept confidential by the Clearing Agencies.[16] Therefore, if a Participant chooses to provide the Clearing Agencies with the report itself, and the report contains non-public confidential information, the Clearing Agencies will treat it as such. The Clearing Agencies do not believe an attestation process, by itself, is sufficient, as it would lack the context and information relevant to the Clearing Agencies' understanding and assessment of the recommendations and action taken.

III. Comments on the Clearing Agencies' Rationale for Action Under the Proposal

A. SIFMA states, in summary, that the Clearing Agencies should more clearly articulate the risks and threats for which they consider disconnection to be an appropriate mitigant.[17]

The Clearing Agencies believe that the proposed rule text clearly articulates the risks and threats that would be considered in both declaring a Major System Event and in the actions that could be taken in response to such an event. As stated in proposed Section 3(b), action taken pursuant to the rule would be inconsideration of, for example, the risks enumerated in the definition of a Major System Event: a disruption, degradation, delay, interruption, or alteration to the normal operation of DTCC Systems; unauthorized access to DTCC Systems; loss of control, disclosure, or loss of DTCC Confidential Information; or a strain, loss, or threat to Clearing Agency resources, functions, security, or operations. Although the Clearing Agencies cannot account for or enumerate every risk or threat, they believe the proposed rule text provides clear and sufficient notice on what the Clearing Agencies would consider prior to acting.

B. SIFMA states, in summary, that the proposed rule changes, generally, give the Clearing Agencies authority to interfere with a participant's ability to make business decisions; therefore, the Clearing Agencies should acknowledge that (i) the participants are best placed to determine specific mitigation actions and (ii) the Clearing Agencies intend to balance the risk created by the incident with the business effect of any action, especially disconnection, that the Clearing Agencies may take in response.[18]

The Clearing Agencies do not believe that the proposed changes would authorize the Clearing Agencies to interfere with a Participant's ability to make its own business decisions, nor is that the intended purpose of the changes. Rather, the proposed changes are intended to (i) protect the Clearing Agencies' systems (i.e., DTCC Systems) and, in turn, the Participants and industry that rely on them; (ii) provide the Clearing Agencies with the information necessary for them to make informed decisions regarding DTCC Systems, in consideration of all their Participants; and (iii) establish sufficient authority to act, in the event of a Major System Event, which, by definition, must involve DTCC Systems. That said, the Clearing Agencies fully appreciate that a decision they make, in response to a Major System Event, could have a business effect on the subject Participant. The Clearing Agencies do not take that effect lightly and, as such, have designed the rule to involve the Clearing Agencies' senior most management, their Boards, and the SEC to help ensure the action is appropriate. Moreover, the Clearing Agencies fully expect and intend to work closely with any Participant for which action has been taken pursuant to the rule, in order to help facilitate the continuation of services, as the rule contemplates.

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16 Confidentiality Rules, supra note 13.

17 SIFMA Letter, supra note 2, at 7.

18 Id. at 2, 8.

C. SIFMA states, in summary, that the proposed requirement that the Clearing Agencies may request an indemnity under Section 5(a)(iii) of the proposed rule text is potentially inconsistent with existing relationships and agreements, including with the Clearing Agencies' rules, between the Clearing Agencies and the participants; therefore, the Clearing Agencies should at least clarify their intention with respect to the indemnity requirement. [19]

The proposed indemnity requirement is intended to cover situations that may fall outside the existing relationship and agreements between the Clearing Agencies and Participants. For example, to help effectuate the continuation of services, bespoke arrangements may be necessary, which may present unique and otherwise uncovered risks to the Clearing Agencies. As such, an indemnity may be appropriate. However, as required by the rule, the Clearing Agencies' satisfaction and judgement with respect to such an indemnity must be reasonable and must be considered within the facts and circumstances presented.

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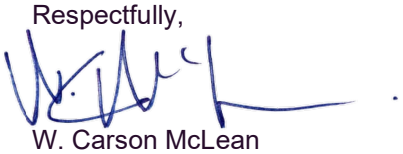
Again, the Clearing Agencies very much appreciate the opportunity to respond to SIFMA's comments. The Clearing Agencies took the comments very seriously and, overall, found them insightful and key to improving the Proposal.

Respectfully,



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[19] Id. at 9.