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February 22, 2013

Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Re: File Nos. SR-NSCC-2012-10 / SR-NSCC-2012-810  
Securities and Exchange Commission (“SEC” or “Commission”)  
SEC Release Nos. 34-68549 (December 28, 2012) / 34-68621 (January 10, 2013)

Dear Ms. Murphy,

National Securities Clearing Corporation (“NSCC”) appreciates the opportunity to respond to the comment letter submitted by LEK Securities Corporation (the “LEK Letter”) with respect to NSCC’s rule filing SR-NSCC-2012-10, and the related advance notice SR-NSCC-2012-810 (collectively referred to as the “Filing”), in which NSCC is proposing to eliminate the offset (the “ID Offset”) of NSCC obligations with institutional delivery (ID) transactions that settle at The Depository Trust Company (DTC) for the purpose of calculating NSCC Clearing Fund under Procedure XV of NSCC’s Rules & Procedures (the “Rules”). As described in greater detail in the Filing, the proposal is intended to eliminate the market risk that, in the event NSCC ceases to act for a Member with pending ID transactions, it will be unable to complete those pending ID transactions in the timeframe contemplated by its current Clearing Fund calculations and, as a result, without sufficient margin in its Clearing Fund, will be under collateralized.

### **Executive Summary**

As the LEK Letter correctly points out, NSCC occupies an important role within the financial services industry by facilitating the prompt and accurate clearance and settlement of securities transactions. As a central counterparty, NSCC interposes itself between counterparties to financial transactions, and through its trade guarantee, NSCC assumes the buyer’s credit risk and the seller’s delivery risk in the event either party defaults prior to settlement. As such, NSCC necessarily is faced with certain risks; including credit risk, which is the risk that a counterparty will be unable to meet its financial obligations when due, and market risk, which is the risk that a central counterparty will be unable to complete a guaranteed transaction of a defaulted Member at the original trade price and will suffer a loss.

NSCC measures and manages its credit and market risk exposure through its assessment of daily Clearing Fund (margin) requirements on its Members. As a primary mitigant to these risks, NSCC’s Clearing Fund is calculated to ensure it has on deposit assets sufficient to satisfy losses

that may otherwise be incurred by NSCC as the result of the default of a Member and the resultant close out of that Member's unsettled positions under NSCC's trade guaranty.

Because NSCC's Clearing Fund formula is designed to provide sufficient funds to cover this risk of loss, margin is collected based on each Member's trading activity. The existing ID Offset, however, provides NSCC Members that are party to ID transactions with a significant, and disproportionate benefit by calculating the Value-at-Risk and Market Maker components<sup>1</sup> of the Clearing Fund after taking into account any offsetting pending (i.e. non-fail) ID transactions that have been confirmed and/or affirmed. In this way, the ID Offset effectively eliminates Clearing Fund charges with respect to the risk presented by those counterparties to ID transactions that are not Members of NSCC, and significantly reduces the Clearing Fund requirement for those Members with offsetting ID transactions. Based on the faulty assumption that, in the event of a Member insolvency, NSCC will be able to close out any trades for which there is a corresponding ID transaction settling at NSCC's affiliate, The Depository Trust Company, by completing that ID transaction, NSCC takes inadequate margin with respect to the market side of the ID trades and leaves itself at risk of being under collateralized in the event of a Member default.

NSCC continuously pursues a focus on risk mitigation, and, as both a clearing agency registered with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 (the "Act"), subject to SEC inspection and oversight, and as a systemically important financial market infrastructure, designated under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), NSCC necessarily reviews its risk mitigation processes against applicable regulatory and industry standards.

This proposal to remove the ID Offset is expressly designed to facilitate NSCC's compliance with the Clearing Agency Standards for Operation and Governance, recently adopted by the SEC under the Act (the "Clearing Agency Standards"), in particular the rules that require NSCC to manage its exposures to potential losses from defaults of its Member and to use margin requirements to limit its credit exposures to Members.<sup>2</sup> Additionally, these rules require NSCC to maintain risk management processes that address the risks presented to it in "extreme but plausible market conditions", requiring NSCC to anticipate risks that it may not have faced in past market conditions.<sup>3</sup> The proposal ensures that NSCC's Clearing Fund calculation is in compliance with these regulatory requirements, and, importantly, protects both NSCC and its membership from the risk of loss that could result from a Member default.

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<sup>1</sup> These Clearing Fund components are described in greater detail in the Filing, and in Procedure XV of NSCC's Rules.

<sup>2</sup> See Rule 17Ad-22(b)(1), which requires NSCC to "limit its exposures to potential losses from defaults by its participants under normal market conditions so that the operations of the CCP will not be disrupted and non-defaulting participants will not be exposed to losses that they cannot anticipate or control"; Rule 17Ad-22(b)(2), which requires NSCC to "use margin requirements to limit its credit exposures to participants under normal market conditions"; and Rule 17A-22(d)(11), which requires NSCC to "establish default procedures that ensure that the clearing agency can take timely action to contain losses and liquidity pressures and to continue meeting its obligations in the event of a participant default"; 17 CFR Part 240, adopting Release No. 34-68080; File No. S7-08-11 (Jan. 2, 2013), available at <http://www.sec.gov/rules/final/2012/34-68080.pdf>.

<sup>3</sup> See Rule 17Ad-22(b)(3) (Financial Resources).

The LEK Letter makes a number of objections to the proposal to remove the ID Offset from NSCC's Rules, and we address those points below.

## **Response to LEK Letter**

### **1. NSCC Guaranty**

The LEK Letter states that firms that are unable to pay any increase in their NSCC Clearing Fund requirement "will be forced out of business" and further that NSCC could accomplish its goals through less harmful alternatives (LEK Letter, pages 1-2).

A vital component of NSCC's risk management processes is a Clearing Fund calculation that reflects the risks those transactions present to the clearing agency. Firms that choose to clear financial transactions directly through NSCC must be able to meet NSCC's membership requirements, including the ability to contribute to the Clearing Fund an amount that accurately reflects the risks its activity presents to NSCC. Firms that are unable to meet the ongoing requirements of membership are not necessarily forced to discontinue their business, but rather may choose to clear transactions through other NSCC Members. It should be noted that agency brokers do currently clear through other NSCC Members.

While NSCC recognizes that the proposal to remove the ID Offset will cause Clearing Fund requirements of certain firms to increase, NSCC has provided its membership, and in particular those Members that will be impacted the most from the proposal, significant advance notice of the changes. Starting in July 2010, NSCC began sharing the results of an impact study directly with impacted Members. These study results reflected the impact of removing the ID Offset on Members' Clearing Fund required deposits during the study period. At that time, NSCC Relationship Management and Enterprise Risk Management staff met with Members that would have experienced a change to their Clearing Fund requirement of greater than 25%, and other impacted Members were invited to contact their NSCC Relationship Managers to schedule meetings with NSCC staff to discuss the proposal and possible alternatives to mitigate the impact of the proposed changes. In January 2011, NSCC issued an Important Notice that identified a number of planned risk management changes, including the proposal to eliminate the ID Offset.<sup>4</sup> The proposal was also included in a 2011 Development Agenda, also published in January 2011 and made publicly available on NSCC's website.

In March 2011, NSCC received a letter from the law firm of Bracewell & Giuliani LLP, attached hereto as Exhibit A, on behalf of certain Members of NSCC that are identified therein. NSCC responded with a letter, attached hereto as Exhibit B, addressing the concerns raised and, in May 2011, NSCC released the results of an updated impact study. At that time, NSCC formed a working group of its Members that was tasked with identifying alternative approaches to reduce the impact of the proposal. While that group was unable to identify an alternative proposal that would adequately address the risk that will be mitigated by the proposal, the group's discussions did result in the development of an 18-month, tiered implementation timeframe, which is now part of the Filing and is designed to give Members additional time to prepare for the potential increase in Clearing Fund requirement.

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<sup>4</sup> See Important Notice A# 7136, P&S# 6706, dated January 7, 2011, available at [http://www.dtcc.com/downloads/legal/imp\\_notices/2011/nscc/a7136.pdf](http://www.dtcc.com/downloads/legal/imp_notices/2011/nscc/a7136.pdf)

As demonstrated above, Members have been given ample opportunity to discuss the proposal with NSCC staff and to prepare for the impact of this proposal and explore with NSCC staff alternatives that could mitigate its impact.

## **2. Need to Change NSCC Margin Requirements with Respect to ID Transactions**

The LEK Letter argues that, given that the existing margin requirements have historically been more than adequate to prevent NSCC from having to draw on the Clearing Fund, it is impossible to understand why NSCC believes the current margin requirements are inadequate (LEK Letter, page 2).

Given its critical role in maintaining stability in the financial markets, NSCC is obligated to adhere to certain risk management practices, including with respect to the measurement and management of credit exposures and with respect to its margin requirement.<sup>5</sup> In recently adopting the Clearing Agency Standards, in particular with respect to standards applicable to the measurement and management of a clearing agencies' credit risk exposures, the SEC stated, "... the risks [clearing agencies] face are subject to change over time due to the potential for significant changes in the risk profiles of participants and if those risks are not appropriately measured and managed by [clearing agencies], they can result in the accrual of significant liabilities."<sup>6</sup> As such, NSCC may not rely on past events as indicators of future risks when designing its risk management processes, nor would it be prudent to do so, particularly in light of the most recent financial market disruptions. As discussed in greater detail below, trading firms, including agency brokers, now trade in higher volumes and at greater frequencies than in the past, utilizing methods such as algorithmic trading and other technology that, while creating efficiencies and accessibility in the market, may put these firms, including agency brokers, at a greater risk of failing than they were in the past. NSCC must ensure it continues to protect itself and its membership from the losses that could result from the default of any of its Members, and it does so, in part, by taking adequate margin that reflects the risk presented by the financial transactions it clears, regardless of the type of firm submitting those transactions to the clearing agency.

## **3. Likelihood that Agency Brokers Could Fail**

The LEK Letter states that "agency broker dealers will not lose money as a result of unfavorable market moves because they can rely on their customers to make good on the losing trades" (LEK Letter, page 2), without providing any support for this assertion.

Since the ID Offset was first introduced, the financial markets have undergone significant changes, particularly with the implementation of Regulation NMS, decimal trading, and the rise of algorithmic trading and alternative trading systems, causing trading volumes to increase significantly. Agency brokers are among the market participants using high frequency trading technology, and volumes of institutional trades have also increased significantly since the implementation of ID Offset. Particularly in response to the technology-related trading disruption that occurred in August 2012, the SEC recognized the increased risks of high

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<sup>5</sup> See *supra* note 2 citing to Rule 17Ad-22(b)(1) (Measurement and Management of Credit Risk Exposures) and Rule 17Ad-22(b)(2) (Margin Requirements).

<sup>6</sup> See *supra* note 2, at page 42.

frequency and high volume trading when it hosted a Technology and Trading Roundtable to discuss error prevention and error response as it relates to the trading technologies and infrastructure of the securities markets. It should be noted that the events of last August originated at a firm that is an agency broker and clears a high volume of institutional trades at NSCC.

The LEK Letter also incorrectly states that, “[t]he ID System is used to send confirmations of buy and sell contracts to large institutional customers and the affirmation of the confirmation by the institutions constitutes a written acceptance by the institution *that it is bound by the contract*” (LEK Letter, page 2, emphasis added). In fact, institutional customers that are counterparties to the institutional delivery side of ID trades cleared at NSCC are not Members of NSCC and have no contractual obligation with NSCC to complete those trades if the NSCC Member that is party to the transaction defaults. This lack of privity of contract between NSCC and the institutional counterparty to these trades creates the significant market risk that is being addressed by the proposal to remove the ID Offset – that, in the event NSCC ceases to act for a Member with pending ID transactions, it will be unable to complete those pending ID transactions in the timeframe contemplated by its current Clearing Fund calculations and, as a result, without sufficient margin in its Clearing Fund, NSCC will be under collateralized.

The Filing sets out a number of reasons why NSCC may not be able to complete an insolvent Member’s open ID transactions, including the fact that the institutional customer is not a Member of NSCC, is not bound by NSCC’s Rules, and is not party to any legally binding contract with NSCC that requires the institutional customer or its custodian to complete the transaction. The proposal to remove the ID Offset is designed to ensure NSCC is not exposed to the market risk that is not currently covered by the margin collected on those trades.

#### **4. Effects on Competition**

The LEK Letter states that the “proposal will have a disproportionate negative impact on agency broker dealers that will likely force many of them out of business, thereby reducing competition in the securities business and securities markets” (LEK Letter, page 4).

By eliminating the ID Offset, NSCC is eliminating an unfair and disproportionate advantage currently enjoyed by those NSCC Members who clear the market side of ID trades at NSCC. NSCC’s Clearing Fund formula should calculate margin requirements that reflect the risks presented by the underlying transactions. The ID Offset currently operates to reduce the margin requirements for the market side of ID trades cleared at NSCC by inappropriately assuming that NSCC will be able to complete the pending ID transactions that were used to offset that Member’s unsettled NSCC position. Therefore, NSCC’s current Clearing Fund formula, through the application of the ID Offset, fails to take into account the significant risk that NSCC will not be able to complete those transactions, and would be left to liquidate a portfolio that is under collateralized.

As such, the proposal will “level the playing field” with respect to the calculation of Clearing Fund required deposits for the market side of ID trades cleared at NSCC, and will ensure NSCC

maintains compliance with regulatory obligations that require it to limit its credit exposures to its participants through a risk-based margin system.<sup>7</sup>

While NSCC recognizes that the proposal will increase the Clearing Fund requirement for those Members that clear the market side of ID trades at NSCC, the removal of the ID Offset is applied indiscriminately, without regard to the type of Member submitting the trade, but only with respect to the type of transaction being submitted to NSCC for clearing. The proposal will ensure NSCC's Clearing Fund formula more appropriately addresses the risks presented by those transactions than the current Clearing Fund calculation. Given the important risk mitigation benefits of the proposal, NSCC believes that any unintended impact on competition of this proposal should not be considered unreasonable or inappropriate.

## **5. Explore Alternatives**

The LEK Letter states that NSCC "could implement other approaches to reduce risk without the dire consequences that logically flow from eliminating the ID Offset" (LEK Letter, pages 5-6).

As mentioned earlier in this letter, NSCC has communicated extensively with its membership about its concerns with the ID Offset, and the risks the offset presents to the clearing agency and its Members. NSCC has provided its membership, and in particular those Members it expects to experience the largest impact from the proposal, including LEK Securities Corporation, with numerous opportunities to review the proposed impact of removing the ID Offset and to discuss alternatives that could mitigate this impact. While no viable alternatives have been identified during these conversations, NSCC has continued to provide impacted Members with opportunities to prepare for and mitigate the impact of the proposal, significantly through the 18-month implementation timeframe outlined in the Filing.

## **Conclusion**

NSCC thanks LEK for its constructive input and its understanding of NSCC's systemically important role in the industry. The foregoing illustrates the importance of the issues addressed in the Filing to NSCC, its participants, and the securities markets NSCC serves. Given the risk mitigation benefits, adoption of the proposal will improve the safety and soundness of the U.S. capital markets, and NSCC's Clearing Fund formula will more fairly reflect the risks presented to NSCC by the market side of ID trades that are submitted to it for clearing. Accordingly, we respectfully request that the Filing be approved, as we believe it satisfies all of the factors the Commission must evaluate in approving a clearing agency filing.

Should you have any questions, please do not hesitate to contact me at (212) 855-7522.

Sincerely,



Murray C. Pozmanter  
Managing Director

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<sup>7</sup> See *supra* note 2, Rule 17Ad-22(b)(2) (Margin Requirements).

Exhibit A

[Bracewell & Guiliani LLP Letter]

March 16, 2011

Mr. Donald F. Donahue  
Chairman & Chief Executive Officer  
The Depository Trust & Clearing Corporation  
55 Water Street  
New York, New York 10041

Re: Elimination of the ID Offset

Dear Mr. Donahue:

We submit this letter on behalf of our clients, BNY ConvergeEx Execution Solutions LLC, Daiwa Capital Markets America Inc., Instinet LLC, ITG, Inc. and Knight Execution & Clearing Services LLC (collectively, the "Firms"). On Thursday, January 13, 2011, representatives of the Firms and DTCC met to discuss DTCC's January 7, 2011 announcement that certain of DTCC's risk management strategies would be implemented in "mid 2011" (the "January 7 Notice"). In particular, the parties discussed the proposed elimination of margining offsets associated with offsetting CNS and institutional trades (commonly known as the "ID Offset"). While the Firms appreciate the opportunity to have participated in the meeting, we are concerned that DTCC will move forward with its plan to eliminate the ID Offset this summer without the opportunity for public comment on the proposal as would be provided by a filing with the Securities and Exchange Commission ("Commission").

The Firms appreciate and understand DTCC's efforts to enhance risk management controls. We believe, however, that other, practical measures can mitigate this risk without serious adverse consequences for certain DTCC members, that the proposed elimination of the ID Offset has not been appropriately communicated to DTCC's members and that the elimination of the ID offset poses significant risks that have not been adequately evaluated. We urge the Board of Directors to delay implementation of this change pending a comprehensive review not only of the impact of eliminating the ID Offset, but also alternative risk mitigation strategies that may have less of an impact on certain of DTCC's member firms.



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**I. DTCC Should Delay the Proposed Implementation Date and Further Evaluate the Impact of the Proposed Change**

DTCC has acknowledged that eliminating the ID Offset is among the changes that will "have the largest impact on members," but it has not adequately evaluated that impact. In the January 7 Notice, DTCC reported that "comprehensive impact studies" are being conducted regarding the ID Offset change (among others) and that the results of those studies will be available in the beginning of the second quarter of 2011. Importantly, what is left unclear is what these impact studies are intended to evaluate. From the information available, it appears that the impact is being evaluated on a firm-by-firm basis, but the Firms believe that an average impact calculation may omit substantial adverse effects on individual firms, potentially without assessing the more deleterious impact that such a change is likely to have on members primarily engaged in an agency execution and clearing business.

Apparently, DTCC has already completed a preliminary evaluation of the impact of eliminating the ID Offset. The result of this initial evaluation, which was conducted on a "stand-alone" basis, was that this change will impact approximately two-thirds of all DTCC members and that it will require, on "average," a 17% increase in a member firm's Clearing Fund deposit. Based on this limited information, it is clear that the impact of eliminating the ID Offset will be substantial for the "average" firm and may be business disruptive and cause anticompetitive results beyond the "average" organization. It also appears that DTCC has not conducted a meaningful evaluation to measure the impact of this change other than on an average firm basis. While an "average" firm may be required to increase their Clearing Fund deposit by 17%, other firms estimate that eliminating the ID Offset will cause their Clearing Fund deposit to double.

For some DTCC members, an increase of 17% or more in their required Clearing Fund deposit may cause those firms to choose to terminate their DTCC membership, and this consequence is more likely to occur at firms that do not custody customer assets. Concomitantly, firms that custody customer assets will be able to pledge additional customer securities to meet the increased deposit requirement while firms that do not will be required to deposit additional cash from their capital reserves. Further, we do not believe that all effected firms will be able to finance this increased deposit through bank loans. Due to the fluid nature of the deposit requirement, the amount and duration of any such loan would be unknown, and there would be no ability to secure the financing with any subsequent decrease in Clearing Fund deposit requirement as transactions settled, making it unlikely that any financial institution would be willing provide such financing. Firms that are unable to raise additional capital to fund this deposit will be required to terminate their DTCC membership and enter into clearing arrangements with other firms.

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Assuming that some firms will be forced to terminate their clearing operations, DTCC's proposed mid-2011 implementation does not leave sufficient time for those firms to terminate their current clearing operations and convert to another clearing platform. As DTCC is aware, terminating a clearing business and converting to another platform is a time-consuming and complicated task that could easily take several months or even up to a year.

In addition to the practical difficulties that elimination of the ID Offset would bring, as noted above, the change will have a disproportionate adverse impact on firms that do not custody customer securities, creating an uneven playing field and placing the firms that are able to maintain their DTCC membership at a competitive advantage over the non-custodial members. The ID Offset change, to the extent that it disfavors firms primarily engaged in the business of effecting institutional transactions on a receipt-versus-payment/delivery-versus-payment ("RVP/DVP") basis, also gives the appearance that such firms pose a greater systemic risk, or are otherwise less safe, which is simply not the case. The proposed elimination of the ID Offset appears to reflect the view that DTCC's risk varies solely with respect to its obligations on individual transactions and is unrelated to the risk of the member's actual activities. Indeed, elimination of ID Offset has the perverse effect of establishing collateralization requirements for agency broker-dealers that are identical to broker-dealers engaged in significant proprietary trading activities, even though the financial risks posed by the two firms are substantially different. We respectfully submit that these unintended consequences, namely, concentration of DTCC's membership in a smaller number of larger firms and creation of a bias against agency RVP/DVP firms actually increase systemic risk.

## **II. DTCC Should Do More to Alert Members About This Change**

While there is some discussion of approval of rule filings in the January 7 Notice, it is not clear whether DTCC intends to file a proposed rule change with the Commission to conform with the regulatory approval process for rule changes that shall have a significant impact on DTCC members. Accordingly, we urge DTCC file such a proposed rule change with the Commission to ensure that adequate notice of this change is given and that there is an opportunity for public comment. The need for additional discourse is clear. In preparation for the February 4 meeting with DTCC, the Firms consulted with other DTCC members to discuss the ID Offset change and were surprised to learn that very few members were aware of the impending change and its potential impact. Given the magnitude of the impact of the elimination of the ID Offset, at a minimum, the change must be more prominently communicated to DTCC's members and members should have ample time to comment on the proposed change.

Mr. Donald F. Donahue  
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### **III. DTCC Should Explore Other Alternatives**

As stated above, the Firms do appreciate and understand DTCC's efforts to review and enhance its risk management practices, including the risks posed by utilization of the ID Offset. We believe, however, that the elimination of the ID Offset is an unnecessarily onerous way to address the issues relating to potential insolvency of a participant. As discussed below, we believe that there are other, less disruptive, ways to mitigate the risks posed to DTCC by these transactions.

At the meeting with DTCC's staff on January 13, the Firms proposed a number of alternatives that would achieve DTCC's goal of reducing risk without unnecessarily disadvantaging certain members. Those alternatives included establishing a guarantee fund and requiring buy-side firms to pledge assets to settle trades at a third party trust company that would settle trades if the buy-side firm were to become insolvent. Additional options include the explicit grant to DTCC of subrogation rights in respect of ID transactions.

Moreover, we urge DTCC to consider whether elimination of the ID Offset is appropriate in respect of institutional transactions settled by a custodian that participates in ID Net. ID Net transactions net with a broker's CNS transactions at NSCC and accordingly pose no greater risk to NSCC upon affirmation than other CNS transactions. It is unclear from DTCC's proposal whether its proposed elimination of ID Offset would also apply to ID Net transactions and what the basis for such an elimination would be. If elimination of the ID Offset would not apply to transactions settled by an ID Net subscriber, we believe that sufficient time should be afforded custodians to determine whether this change merits their further consideration of participation as ID Net subscribers.

We urge DTCC to solicit public comment on these and other potential solutions.

### **IV. Conclusion**

We ask that DTCC take immediate steps to delay implementation of the change and approach its membership to better inform them regarding the ID Offset change and what the likely impact of the change will be on the individual firms and on the industry. Further, we urge DTCC to file this proposal as a rule change with the Commission. Filing with the Commission would conform with the objectives of the rulemaking process to ensure that the proposal is properly vetted and that the industry and the public have an opportunity to comment. Finally, we ask that DTCC consider other, less disruptive, alternatives to the ID Offset change that would achieve DTCC's goal of decreasing systemic risk while maintaining a fair, competitive and level playing field among DTCC members.

BRACEWELL  
& GIULIANI

Mr. Donald F. Donahue  
March 16, 2011  
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Thank you in advance for your consideration of these comments. If the Board has any questions or needs any additional information, please feel free to contact me at 212.508.6142, or my colleague, David Sieradzki, at 202.828.5826.

Very truly yours,

Bracewell & Giuliani LLP

A handwritten signature in black ink, appearing to read "Julian Rainero". The signature is written in a cursive style with a large initial "J" and a long horizontal stroke.

Julian Rainero

Exhibit B

[NSCC Response to Bracewell & Guiliani LLP Letter]



**The Depository Trust &  
Clearing Corporation**

Tel: 212 855 1000  
e-mail@dtcc.com

55 Water Street  
New York, NY 10041-0099

April 26, 2011

Mr. Julian Rainero  
Bracewell & Giuliani LLP  
1251 Avenue of the Americas  
New York, NY  
10020-1104

Dear Mr. Rainero,

I am writing in response to your letter to Donald F. Donahue dated March 16, 2011 regarding National Securities Clearing Corporation's (NSCC) intent to eliminate its procedure that offsets obligations with institutional delivery transactions settling at The Depository Trust Company for the purpose of calculating NSCC's Clearing Fund (the "ID Offset"). We appreciate your comments and your understanding of The Depository Trust & Clearing Corporation's (DTCC) efforts to better mitigate risk for its customers and for the industry as a whole.

DTCC and its subsidiaries occupy an important role within the financial services industry and have continuously pursued a focus on risk mitigation. We are fully engaged in regularly reviewing our business with the goal of reducing risk both to our participants and to the industry as a whole. It is with this purpose, and following a thorough analysis that included the completion of an initial impact study and discussion of both the proposal and the results of that initial impact study with impacted participants, that we intend to proceed with a formal rule filing with the United States Securities and Exchange Commission (SEC) in order to eliminate the ID Offset for purposes of calculating NSCC's Clearing Fund.

In response to your letter, we certainly would assure the participants you represent, as well as all impacted participants, that NSCC will follow its customary procedures on a change of this type. As a part of this process, NSCC will make available in May 2011 to impacted participants the results of a more robust study of the impact of the elimination of the ID Offset. Further, NSCC must make a formal rule filing with the SEC to remove the ID Offset, which necessarily allows for a public comment period in addition to the discussions NSCC will be having with its participants regarding the results of the second impact study.

We also will reach out to concerned firms to invite them to join a working group which would be tasked with identifying alternative approaches to reduce the impact of removing the ID Offset. We would look to collaborate with the working group to identify different approaches to mitigating risks to NSCC's participants and the industry as a whole. In parallel with the

*Subsidiaries:*  
The Depository Trust Company  
DTCC Deriv/SERV LLC  
Fixed Income Clearing Corporation  
Global Asset Solutions LLC  
National Securities Clearing Corporation



**The Depository Trust &  
Clearing Corporation**

Tel: 212 855 1000  
e-mail@dtcc.com

55 Water Street  
New York, NY 10041-0099

submission of the rule filing proposing the elimination of the ID Offset, the working group will be asked to consider the viability of alternative risk mitigation approaches and their associated risks, study the associated cost/benefit analysis, and propose a probable time frame for implementation of any such alternatives that are deemed viable. It is our intent to continue to work to reduce risk for the industry and, to the extent that an alternative method may succeed in reducing risk, we will pursue implementation.

Thank you for your constructive input and your understanding of DTCC's systemically important role in the industry. We look forward to working with you and the firms you represent in the future.

Sincerely,

National Securities Clearing Corporation

By:

Murray C. Pozmanter  
Managing Director

*Subsidiaries*  
The Depository Trust Company  
DTCC Deriv/SERV LLC  
Fixed Income Clearing Corporation  
Global Asset Solutions LLC  
National Securities Clearing Corporation