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

Re: File No. SR-NSCC-2013-12
Securities and Exchange Commission ("Commission")
Commission Release No. 34-70946 (November 26, 2013)

Dear Ms. Murphy,

National Securities Clearing Corporation ("NSCC") appreciates the opportunity to respond to the comment letter submitted by the Financial Information Forum ("FIF Letter") with respect to NSCC's rule filing SR-NSCC-2013-12 ("Filing"), in which NSCC is proposing to amend its Rules & Procedures ("Rules") in order to provide NSCC Members with a risk management tool, called "DTCC Limit Monitoring." DTCC Limit Monitoring would provide those Members with post-trade surveillance[1] by allowing them to monitor their trading activity submitted to NSCC and delivering to them notifications when pre-set trading limits on that trading activity are reached. This post-trade risk management tool, described in greater detail in the Filing, was developed in connection with recent industry-wide efforts to develop tools and strategies to mitigate and address the risks associated with the increasingly complex, interconnected, and automated market technology.[2]

Executive Summary

Over the past few decades the securities markets have experienced significant changes as market participants have become more dependent on automated, sophisticated technology and

1 In this context, "post-trade" refers to the period in a transaction life cycle after it has been submitted to NSCC for clearing and settlement.

2 As stated in the Filing, additional risk management tools developed by other market participants in connection with these recent industry-wide efforts, including the tools proposed by BATS Exchange, Inc. and the New York Stock Exchange LLC referred to on page 3 of the FIF Letter, would be separate from and would operate independently from DTCC Limit Monitoring.

interconnected systems. These systems and technologies have provided the securities markets with great advantages, but have also introduced new complexity, new risks, and the potential for system problems that could originate from any one source and have wide effects on the broader market. Following recent market events, and recognizing these new industry challenges, industry participants and their regulators have recently focused on developing tools and strategies to mitigate and address these risks. The Depository Trust & Clearing Corporation ("DTCC"), NSCC's parent company, has been a critical part of these efforts, participating in the Commission's October 2012 "Market Technology Roundtable", providing comments to the Commission's proposed Regulation Systems Compliance and Integrity,[3] and taking part in industry working groups organized with the goal of addressing these issues. Through its participation in these industry-wide efforts and with input from other industry participants, DTCC developed DTCC Limit Monitoring, a risk management tool that would provide the U.S. equity markets with post-trade surveillance of trading activity that is submitted to NSCC for clearing.

As proposed in the Filing, DTCC Limit Monitoring would provide NSCC's Members with a method to monitor clearing activity through their accounts and set parameters that enable them to monitor exposure. By allowing NSCC Members to monitor intraday trading activity, and by sending out alerts when pre-set limits on that activity are being approached and reached, the proposed DTCC Limit Monitoring will provide NSCC Members with notice when there is an unusual or unexpected spike in trading activity that could indicate a trading error, or that a customer is trading outside the limits set by its clearing firm. This post-trade risk management tool will be a critical part of the industry-wide effort to mitigate errors and systems issues that have the potential to cause great harm within the securities markets.

While the FIF Letter does not object to DTCC Limit Monitoring, it requests that "additional discussions" take place prior to implementing the tool as a requirement for certain NSCC Members. As noted in the FIF Letter, NSCC has proposed to mandate the use of DTCC Limit Monitoring by NSCC Members that clear trades for other firms or participate in special representative transactions pursuant to Procedure IV (Special Representative Service) of NSCC's Rules.[4] NSCC occupies an important role within the financial services industry by facilitating the prompt and accurate clearance and settlement of securities transactions. 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, unlike other self-regulatory organizations that process trades but do not assume the same risks with respect to such trades. Given its position at the end of the securities

3 Release No. 34-69077; File No. S7-01-13 (March 8, 2013).

4 Specifically, under the proposal, Members required to register for DTCC Limit Monitoring would include: (1) any NSCC full service Member that clears for others; (2) any NSCC full service Member that submits transactions to NSCC's trade capture system either as a Qualified Special Representative (QSR) or Special Representative; and (3) any NSCC full service Member that has established a 9A/9B relationship in order to allow another NSCC Member (either a QSR or Special Representative) to submit locked in trade data on its behalf.

processing chain, NSCC is the ultimate bearer of these risks, and the risks faced by NSCC could, in certain circumstances, ultimately be borne by its membership and the wider market.

Therefore, NSCC has a heightened interest in protecting itself and its members from these risks. Surveillance of the trading activity that has been submitted to NSCC for clearing against pre-set limits is an effective way to identify potential trading errors that could otherwise cause widespread market disruption. NSCC believes that the success of post-trade surveillance as part of an industry-wide risk management structure depends on NSCC Members subscribing for and using DTCC Limit Monitoring. Due to NSCC's interest in risk management, specifically its interest in mitigating the impact of trading errors, NSCC has proposed to implement DTCC Limit Monitoring as a required service for Members that clear trades for other firms or participate in special representative transactions, and will not charge any standalone fees for the service. While all NSCC Members would benefit from DTCC Limit Monitoring and will be encouraged to subscribe for the tool, the risk management value a firm will derive from DTCC Limit Monitoring will vary based on its type of business and the volume of trading activity it submits to NSCC. As such, DTCC has decided that Members that are "self-clearing" and only clear their own trades at NSCC are, in general, less likely to require this level of risk management to detect errors, given that they have a greater level of control over the trades they submit to NSCC. Under the proposal, DTCC will not require these Members to subscribe for DTCC Limit Monitoring. In contrast, Members that clear trades for other firms or participate in special representative transactions may face increased risk, for example, when clearing and settling trading activity that is executed in the market by another firm. These Members have less control over the execution of these trades and do not have the same ability to manage risks of technology issues with respect to these trades, which they may not be executing but are responsible for clearing and settling. DTCC believes that firms in these trading relationships may have an increased exposure to the risks that post-trade surveillance will mitigate, and, as such, has proposed to require these firms to subscribe for DTCC Limit Monitoring.

The FIF Letter requests that "additional discussion" take place before DTCC Limit Monitoring is implemented as a mandatory service for some Members of NSCC, and identified three reasons for this request. We address each of these three reasons for FIF's request below.

<u>Response to FIF Letter</u>

1. Limited Trading Information Available to DTCC Limit Monitoring

The FIF Letter states that, because certain trade data will not be monitored by DTCC Limit Monitoring as proposed in the Filing, it will provide Members with "incomplete information regarding a true picture of a firm's trading activity" (FIF Letter, pages 1-2).

DTCC Limit Monitoring was developed to serve as a post-trade surveillance tool for NSCC's Members by monitoring the trading activity submitted to NSCC through its Universal Trade Capture ("UTC") system. NSCC's UTC system, implemented in 2011, is a streamlined platform for trade capture and reporting that provides real-time processing for equity trades submitted to NSCC from virtually the entire marketplace. By leveraging the vast equity trade data that is processed through UTC, DTCC Limit Monitoring will provide its users with a continuously updated view of their equity trading activity as it is submitted to NSCC for processing.

NSCC is the primary clearing agency for the U.S. equities markets and is in a unique position to analyze opportunities to mitigate potential systemic risks in that market, including those stemming from the rapid changes in market technology. NSCC believes that, in its proposed form, DTCC Limit Monitoring will offer its users significant risk management benefit by providing a single, centralized aggregated view of all U.S. equity trades that are submitted to NSCC for clearance. The trading activity of NSCC Members that is not processed through NSCC will not be included in this trade activity surveillance, and NSCC Members will necessarily take the scope of DTCC Limit Monitoring into consideration when setting trading limits, and in analyzing and responding to alerts regarding those limits.

While NSCC could, in the future, consider development of additional functionality, for example the inclusion of trade data from other sources, such as "DVP-side," options, or futures trade data as suggested by the FIF Letter, any such expansion would likely be complex and it is not clear that, in all cases, this would provide enhanced risk management benefits. DTCC does not believe the launch of this important risk management tool should be delayed to consider expansion of post-trade surveillance outside the scope of trading activity cleared at NSCC.

As indicated in the FIF Letter, the risk management benefit of DTCC Limit Monitoring's post-trade surveillance is enhanced when trade data is submitted to NSCC in real-time, and not delayed or batched prior to submission for clearing. In February 2014, NSCC expects to implement in its Rules a requirement that all locked-in trade data submitted to NSCC for trade recording be submitted promptly after trade execution (or in "real-time"), and to prohibit pre-netting and other practices that prevent real-time trade submission.[5] It is noteworthy, however, that today, even prior to the implementation of this requirement, NSCC estimates that approximately 91% of all locked in trade data is submitted to NSCC in real-time. As such, while the upcoming requirements will not be imposed on correspondent clearing trade data, in some cases that trade data is also already being reported to NSCC in real-time, and is not pre-netted or batched.[6]

Likewise, while NSCC's UTC system does not require the inclusion of "executing broker" data, as noted in the FIF Letter, trade submission records received from exchanges and other execution venues often include this level of information, likely because firms recognize the value in providing this information, which is then reported back to NSCC Members to allow them to reconcile their trades.

Therefore, while NSCC's Rules do not currently require that correspondent clearing trades be submitted to NSCC in real-time, or mandate that trades processed through UTC include "executing broker" data, NSCC's Members certainly are permitted and encouraged to take these

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5 See Release No. 34-69890; File No. SR-NSCC-2013-05 (June 28, 2013); and Release No. 34-69894, File No. SR-NSCC-2013-805 (June 28, 2013).

6 In connection with industry working group discussions, NSCC has begun to consider a possible future proposal to require real-time trade submission of correspondent clearing trades. Any such proposal, however, remains subject to further development and discussion with industry participants.

actions without a mandate in the Rules, and often do so understanding they can only benefit from taking these actions.

2. Post-Trade Alerts Offer Variable Benefit to NSCC Members

The FIF Letter states that some firms that would be required to register for DTCC Limit Monitoring, as proposed, have already developed and implemented similar, but more sophisticated, internal trade monitoring risk management tools and, as such, may not benefit from use of DTCC Limit Monitoring (FIF Letter, page 2).

DTCC Limit Monitoring was developed in connection with DTCC's participation in industry-wide efforts to assess and address risks stemming from market technologies, and with input from other industry participants. An effective risk management structure provides for multiple check points, including pre-trade controls and post-trade surveillance. Industry participants have indicated that pre-trade monitoring as a stand-alone risk management tool may not provide adequate protection for firms or against systemic risk. DTCC Limit Monitoring was developed in order to provide a standardized, post-trade surveillance tool that would operate as one level of an industry-wide, multi-tiered risk management system aimed at managing and mitigating risks related to systems technology.

While NSCC's membership is diverse, and includes firms and market participants of all sizes, business structures, and complexity, NSCC believes that each of its Members, even those with sophisticated internal trade monitoring risk management tools, would receive risk management benefit from DTCC Limit Monitoring. DTCC Limit Monitoring would provide the U.S. equities markets with additional risk mitigation at the post-trade level, and would act independently from and supplement the risk management tools in place both within Member firms as well as those being developed by other self-regulatory organizations. DTCC Limit Monitoring was not developed to replace any pre-trade and real-time risk management tools, but was always intended to contribute to a multi-layered approach to risk management in the industry, and to contribute to the industry's goal of avoiding a single point of failure. NSCC's Members would use the output provided by DTCC Limit Monitoring as they see fit within their existing risk management processes, and can integrate this data into downstream systems as needed.

DTCC staff consulted widely with its membership and other industry participants when developing DTCC Limit Monitoring. Within industry working groups that were assembled in late 2012, it was agreed that a standard metric should be used in market technology risk management, both in post-trade surveillance at NSCC as well as on a pre-trade basis within the tools being developed by other self-regulatory organizations. These discussions concluded that the net notional value would be the industry metric for trade limits used by these risk management tools, and DTCC incorporated this metric into DTCC Limit Monitoring. In this context, and with the goal of furthering the standardization of these risk management tools within the industry, DTCC decided to use the MPID/mnemonic within DTCC Limit Monitoring, which are the standard industry identifiers to identify the origin of trade execution used at exchanges and other execution platforms.

Therefore, while the trade details available to a firm to be monitored in its own risk system and the metrics those systems measure may differ from the details that will be monitored through

DTCC Limit Monitoring, these features provide the benefit of standardizing the metrics used in risk mitigation tools being implemented across the industry.

3. Initial and Ongoing Effort Needed in Monitoring Post-Trade Surveillance

The FIF Letter states the "requirement to set and maintain post-trade limits imposes a significant burden on firms from an operational perspective" (FIF Letter, page 3).

DTCC has always provided its clients with operational support, education and training, and ample advance time to prepare for the implementation of new systems or Rules. In the case of DTCC Limit Monitoring, DTCC's support staff has already invested significant effort in educating its membership on the use, function, and role of this tool. DTCC's efforts are and will continue to be aimed at ensuring that Members that subscribe for DTCC Limit Monitoring receive adequate support to reduce the time a firm's staff would need to set up DTCC Limit Monitoring, and at assisting to make the on-going monitoring and maintenance of a firm's DTCC Limit Monitoring profiles and trading limits an uncomplicated and routine part of the Members' existing risk management functions.

Specifically, DTCC staff has posted various information documents, conducted numerous webinars, held group and one-on-one informational and training sessions, and met with industry groups and individual Members to discuss DTCC Limit Monitoring, all with the goal of supporting its Members in the anticipated implementation of the tool and reducing the efforts needed by Members in subscribing to and maintaining their use of the tool going forward.

Certainly, setting and monitoring trading limits and analyzing any alerts that are delivered from DTCC Limit Monitoring will require additional time by a firm. However, as the FIF Letter points out, many firms already have risk management platforms in place, and presumably have trained staff that administers those platforms. With DTCC's support, Members should not incur a significant burden on their existing risk management staffs' time. Further, NSCC believes that any time that is required in connection with subscribing for DTCC Limit Monitoring would be considered warranted by the risk management benefits that the tool offers to NSCC's Members and the industry, particularly in light of the increased focus on mitigating technology-related risks in the market.

Additionally, as with most new initiatives, NSCC anticipates that the launch of DTCC Limit Monitoring will be followed by a "phase-in" period during which many Members will need additional time and support in setting appropriate trade limits and in establishing any necessary internal procedures with respect to the tool. In the case of DTCC Limit Monitoring, DTCC staff expects this time period to last approximately six (6) months, but will, of course, offer its Members continued support beyond this time frame as needed.

Finally, as stated in the Filing, NSCC Members would incur minimal, if any, cost in implementing DTCC Limit Monitoring from an operational perspective, as subscription for the tool does not require any systems changes.

Conclusion

NSCC thanks FIF for its constructive input and its understanding of the important role the proposed DTCC Limit Monitoring will play in industry-wide system of risk management. As stated above, NSCC does not believe that the reasons provided in the FIF Letter merit granting its request for additional discussion before offering DTCC Limit Monitoring as a requirement for certain NSCC Members.

As noted in the FIF Letter, other self-regulatory organizations have, in connection with the same recent industry-wide discussions, developed other tools that will operate within this multi-tiered risk management system and have not been proposed to be mandatory for the clients of those organizations. It is important to note that trading activity processed through these self-regulatory organizations is subject to other mandatory risk management requirements, for example exchange rules regarding "clearly erroneous" trades. Further, these self-regulatory organizations do not assume the same level of risks as NSCC, which, as a central counterparty, has a greater stake in ensuring its Members implement effective risk management tools. NSCC is in a unique position to provide the industry with an important layer of trading activity surveillance at the post-trade level, and believes that the effectiveness of DTCC Limit Monitoring in mitigating market technology risks depends on its use by NSCC's Members, particularly those firms that clear for others or participate in special representative transactions.

NSCC's Members support the proposal for DTCC Limit Monitoring as it was proposed in the Filing, and are ready to benefit from its post-trade surveillance offering. 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