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Clearing WACL DTC 0709

Via the SEC Portal

March 22, 2022

Ms. Vanessa Countryman
Office of the Secretary U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: Comment Letter SEC Release No. 34-93856; File No. SR-NSCC-2021-016

Dear Ms. Countryman:

We are writing to express our opposition to National Securities Clearing Corporation's ("NSCC") proposed rule changes. As explained below, the proposed rules are **NOT** risk based and are likely to needlessly force additional consolidation among well managed small firms.

In fact -- the proposed rules may <u>add risk</u> to the system -- exacerbating the very problems they are meant to mitigate.

NSCC asserts that increased capital will help members withstand the risk of increased margin requirements. But any such risk has been largely created by NSCC's already excessive VAR and illiquidity charges. The recent proposal is part of an endless cycle of needless, increasing charges followed by increases in required minimum capital to back them up. Simply put, the default risk cited by NSCC is one to which that agency has substantially contributed. We urge the Commission to consider the entire risk matrix for small firms to understand the fundamental misconception of risk embedded in the current proposal.

Using our own history as an example, this firm joined NSCC & DTC approximately 40 years ago. Throughout this period, we have never carried margin accounts, have maintained many multiples of required capital, and have **never borrowed any money** through 40 years of market turmoil. Despite this, we have been incomprehensibly placed in the 'high-risk' firm group. That classification ignores our business and our balance sheet.

Risk is not just trading activity; it is the product mix and assets held. And the larger the firm, the greater the likelihood of complex and/or incomprehensible products (inventory) at every turn. Market history has shown this again and again.

Real Risk also results from too much borrowed money. Ratios of liquid assets to current liabilities, or Net Cash to Net (3 day) Settlements, might paint a much different picture of which firms are strongest short term.

We believe the new Minimum Excess Net Capital Matrix for small firms demonstrates NSCC's misunderstanding of risk. NSCC has argued that Agency Trades vs Prop trades have the same degree of risk to a firm. We disagree. NSCC states that even if business models had varying degrees of risk, it is beyond their ability to 'Know their Firms'. **This is extremely disturbing – that the experts at NSCC claim to be unable to develop a true quantification of risk based on actual risk factors-- and rely on that alleged inability to justify eviscerating small firms. This approach should be rejected by the Commission in its entirety.**

Finally, the likely impact of the proposed rules is that small firms will increase leverage or be forced to consolidate, while discouraging the entry of new firms. All of this lessens competition and increases risk to the system. Thus, the proposal, in addition to being unfounded and discriminatory, is counterproductive toward the end that it purports to achieve.

We thank the Commission for taking the time to consider this comment letter.

Respectfully submitted,

Wachtel & Co Inc

Wendie L Wachtel

Wendie L Wachtel, COO

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