



NATIONAL  
SECURITIES  
CLEARING  
CORPORATION

RULES & PROCEDURES

**TEXT OF PROPOSED RULE CHANGE**

text indicates proposed added language.

text indicates proposed deleted language.

indicates proposed added language in connection with a separate proposal that has been filed with the SEC but not yet approved (SR-NSCC-2022-009).

RULE 56. SECURITIES FINANCING TRANSACTION CLEARING SERVICE

**[Changes to this Rule 56, as amended by File Nos. SR-NSCC-2022-015 and SR-NSCC-2022-802 are available at <https://www.dtcc.com/~media/Files/Downloads/legal/rulefilings/2022/NSCC/SR-NSCC-2022-015.pdf> and at <https://www.dtcc.com/~media/Files/Downloads/legal/rulefilings/2021/NSCC/SR-NSCC-2022-802.pdf>, respectively. These changes have been approved by the SEC but have not yet been implemented. By no later than 60 business days after the approval of SR-NSCC-2022-015 and the no objection to SR-NSCC-2022-802 by the SEC, these changes will be implemented. The Corporation will issue an Important Notice when these changes are implemented, and this legend will automatically be removed from this Rule 56.]**

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SEC. 12. Clearing Fund Obligations.

(a) Each SFT Member, other than an SFT Member that is a Sponsored Member, shall make and maintain on an ongoing basis a deposit to the Clearing Fund with respect to its SFT Positions (the "SFT Deposit"). For the avoidance of doubt, the SFT Positions for an SFT Member that is a Sponsoring Member shall include all SFT Positions held in its Sponsored Member Sub-Account(s) in addition to its proprietary account(s).

(b) The SFT Deposit shall be held by the Corporation or its designated agents as part of the Clearing Fund, to be applied as provided in Sections 1 through 12 of Rule 4.

(c) The Corporation shall calculate the amount of each such SFT Member's required deposit for SFT Positions, subject to a \$250,000 minimum (excluding the minimum contribution to the Clearing Fund as required by Procedure XV, Section II.(A)), by applying the Clearing Fund formula for CNS Transactions in Sections I.(A)(1)(a),<sup>4</sup> (b), (c), (e), (f), (g)<sup>2</sup> of Procedure XV as well as the additional Clearing Fund formula in Section I.(B)(5) (Intraday Mark-to-Market Charge) **and (6) (intraday volatility charge)**

<sup>4</sup> ~~For the purpose of applying Section I.(A)(1)(a)(i) of Procedure XV (Value-at-Risk (VaR) charge), the volatility of an SFT Member's SFT Positions shall be the sum of (a) the highest resultant value between Section I.(A)(1)(a)(i)I. (Core Parametric Estimation) and Section I.(A)(1)(a)(i)III. (Margin Floor) and (b) the resultant value of Section I.(A)(1)(a)(i)II. (Gap Risk Measure).~~

<sup>2</sup> For the purpose of applying Section I.(A)(1)(g) of Procedure XV (Margin Liquidity Adjustment (MLA) charge), SFT Positions shall be aggregated with Net Unsettled Positions, as defined in Rule 1, in the same asset group or subgroup; provided, however, in the event such aggregation results in a reduction of the aggregate positions in the relevant asset group or subgroup, the Corporation shall apply the greater of (a) the sum of MLA charges separately calculated for SFT Positions and Net Unsettled Positions in the asset group or subgroup and (b) the MLA charge calculated from aggregating the SFT Positions and the Net Unsettled Positions in the asset group or subgroup.

of Procedure XV, except as noted otherwise, in the same manner as such sections apply to CNS Transactions submitted to the Corporation for regular way settlement, plus, with respect to any Non-Returned SFT, an additional charge that is calculated by (x) multiplying the Current Market Price of the SFT Securities that are the subject of such Non-Returned SFTs by the number of such SFT Securities that are the subject of the SFT and (y) multiplying such product by (i) 5% for SFT Members rated 1 through 4 on the Credit Risk Rating Matrix, (ii) 10% for SFT Members rated 5 or 6 on the Credit Risk Rating Matrix, or (iii) 20% for SFT Members rated 7 on the Credit Risk Rating Matrix shall be applied to each SFT Member that is a party thereto (collectively, the “Required SFT Deposit”); provided, however, notwithstanding anything to the contrary, (x) a minimum of 40% of an SFT Member’s Required SFT Deposit shall be made in the form of cash and/or Eligible Clearing Fund Treasury Securities and (y) the lesser of \$5,000,000 or 10% of an SFT Member’s Required SFT Deposit, with a minimum of \$250,000, must be made and maintained in cash; provided, further, the additional Clearing Fund formula in Sections I.(B)(1) (Additional Deposits for Members on the Watch List); (2) (Excess Capital Premium); (3) (Backtesting Charge); (4) (Bank Holiday Charge); Minimum Clearing Fund and Additional Deposit Requirements in Sections II.(A)1(a) – (b), II.(B), II.(C), and II.(D); as well as Section III (Collateral Value of Eligible Clearing Fund Securities) of Procedure XV shall apply to SFT Members in the same manner as such sections apply to Members.

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### PROCEDURE XV. CLEARING FUND FORMULA AND OTHER MATTERS<sup>3</sup>

**[Changes to this Procedure XV, as amended by File Nos. SR-NSCC-2022-015 and SR-NSCC-2022-802 are available at <https://www.dtcc.com/-/media/Files/Downloads/legal/rulefilings/2022/NSCC/SR-NSCC-2022-015.pdf> and at <https://www.dtcc.com/-/media/Files/Downloads/legal/rulefilings/2021/NSCC/SR-NSCC-2022-802.pdf>, respectively. These changes have been approved by the SEC but have not yet been implemented. By no later than 60 business days after the approval of SR-NSCC-2022-015 and the no objection to SR-NSCC-2022-802 by the SEC, these changes will be implemented. The Corporation will issue an Important Notice when these changes are implemented, and this legend will automatically be removed from this Procedure XV.]**

#### I.(A) Clearing Fund Formula for Members

Each Member of the Corporation, except as otherwise provided in this Procedure, is required to contribute to the Clearing Fund maintained by the Corporation an amount calculated by the Corporation equal to:

##### (1) For CNS Transactions

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<sup>3</sup> All calculations shall be performed daily or, if the Corporation deems it appropriate, on a more frequent basis.

(a) (i) The volatility of such Member's Net Unsettled Positions, which shall be **the sum of (1) the highest resultant value among the following I and II below, and (2) the resultant value of III below:**

- I. an estimation of volatility calculated in accordance with any generally accepted portfolio volatility model including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Exchange Act, provided, however, that not less than two standard deviations' volatility shall be calculated under any model chosen. Such calculation shall be made utilizing (1) such assumptions and based on such historical data as the Corporation deems reasonable and shall cover such range of historical volatility as the Corporation from time to time deems appropriate; and (2) each of the following estimations:
  - A. an exponentially-weighted moving average volatility estimation using a decay factor of less than 1, and
  - B. an evenly-weighted volatility estimation using a look-back period of not less than 253 days.

The higher of the two estimations described in (A) and (B) above, shall be the "Core Parametric Estimation".

In calculating these estimations of volatility, the Corporation shall include an additional bid-ask spread risk charge measured by multiplying the gross market value of each Net Unsettled Position by a basis point charge, where the applicable basis point charge shall be reviewed at least annually and shall be based on the following groups: (i) large and medium capitalization equities, (ii) small capitalization equities, (iii) micro-capitalization equities, and (iv) exchange traded products ("ETPs").

~~II. — if the absolute value of the largest non-index position in the portfolio represents more than 30 percent of the value of the entire portfolio (the "concentration threshold"), an amount determined by multiplying the gross market value of such position by a percentage designated by the Corporation, which percentage shall be not less than 10 percent. Such percentage shall be determined by selecting the largest of the 1st and 99th percentiles of three-day returns of a composite set of equities, using a look-back period of not less than 10 years that includes a one-year stress period,<sup>4</sup> and then rounding the result up to the nearest whole percentage.~~

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<sup>4</sup> If the one-year stress period overlaps with the ten-year look-back, only the non-overlapping period will be combined with the look-back window.

~~The concentration threshold would be no more than 30 percent, and would be determined by the Corporation from time to time and calibrated based on the portfolio's backtesting results during a time period of not less than the previous 12 months.~~

III. the sum of:

- A. the net directional market value of the portfolio, which shall be the absolute difference between the market value of the long positions and the short positions in the portfolio, multiplied by a percentage; such percentage shall be determined by the Corporation based on a percentile of the annual historical volatility levels of relevant equity indices (which shall be no less than the historical minimum volatility of the indices), as determined by the Corporation from time to time; and
- B. the balanced market value of the portfolio, which shall be the lowest corresponding market value of long positions and short positions in the portfolio, multiplied by a percentage; such percentage shall be a fraction of the percentage used in (A) above, determined by the Corporation from time to time by considering the model backtesting performance of the applicable balanced portfolios.

III. if the sum of the absolute gross market values of the two largest non-diversified non-index position Net Unsettled Positions<sup>5</sup> in the portfolio represents a percentage designated by the Corporation from time to time more than 30 percent of the gross market value of the entire portfolio (the "concentration threshold"), an amount determined by adding the sum of:

- A. the product of multiplying (1) the gross market value of such the largest non-diversified Net Unsettled Position position by and (2) a percentage designated by the Corporation (the "gap risk haircut"), which percentage shall be not less than 105 percent; and
- B. the product of (1) the gross market value of the second largest non-diversified Net Unsettled Position and (2) a gap risk haircut, which shall be no larger than the gap risk haircut applied to the largest Net Unsettled Position

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<sup>5</sup> The Corporation shall exclude exchange-traded fund positions from the calculation if the positions have characteristics that indicate that they are less prone to the effects of gap risk events, as determined by the Corporate from time to time. Such characteristics include whether the exchange-traded fund positions track to an index that is linked to a broad based market index, contain a diversified underlying basket, are unleveraged or track to an asset class that is less prone to gap risk.

~~and which shall be not less than 2.5 percent. Such percentage shall be determined by selecting the largest of the 1st and 99th percentiles of three-day returns of a composite set of equities, using a look-back period of not less than 10 years that includes a one-year stress period,<sup>6</sup> and then rounding the result up to the nearest whole percentage.~~

The concentration threshold ~~shall~~would be no more than 30 percent.  
~~The concentration threshold~~ and ~~the gap risk haircuts shall~~would be determined by the Corporation from time to time and calibrated based on ~~the portfolio's~~ backtesting results and impact analysis during a time period of not less than the previous 12 months. The Corporation would announce updates of the concentration threshold and gap risk haircuts by Important Notice.

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(2) For Balance Order Transactions

(a) (i) The volatility of such Member's Net Balance Order Unsettled Positions, which shall be the sum of (1) the highest resultant value among ~~the following I and II below, and (2) the resultant value of III below:~~

I. an estimation of volatility calculated in accordance with any generally accepted portfolio volatility model, including, but not limited to, any margining formula employed by any other clearing agency registered under Section 17A of the Exchange Act, provided, however, that not less than two standard deviations' volatility shall be calculated under any model chosen. Such calculation shall be made utilizing (1) such assumptions and based on such historical data as the Corporation deems reasonable and shall cover such range of historical volatility as the Corporation from time to time deems appropriate; and (2) each of the following estimations:

- A. an exponentially-weighted moving average volatility estimation using a decay factor of less than 1, and
- B. an evenly-weighted volatility estimation using a look-back period of not less than 253 days.

The higher of the two estimations described in (A) and (B) above, shall be the "Core Parametric Estimation".

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<sup>3</sup> ~~If the one-year stress period overlaps with the ten-year look-back, only the non-overlapping period will be combined with the look-back window.~~

In calculating these estimations of volatility, the Corporation shall include an additional bid-ask spread risk charge measured by multiplying the gross market value of each Net Balance Order Unsettled Position by a basis point charge, where the applicable basis point charge shall be reviewed at least annually and shall be based on the following risk groups: (i) large and medium capitalization equities, (ii) small capitalization equities, (iii) micro-capitalization equities, and (iv) ETPs.

~~II. if the absolute value of the largest non-index position in the portfolio represents more than 30 percent of the value of the entire portfolio (the “concentration threshold”), an amount determined by multiplying the gross market value of such position by a percentage designated by the Corporation, which percentage shall be not less than 10 percent. Such percentage shall be determined by selecting the largest of the 1st and 99th percentiles of three-day returns of a composite set of equities, using a look-back period of not less than 10 years that includes a one-year stress period,<sup>7</sup> and then rounding the result up to the nearest whole percentage.~~

~~The concentration threshold would be no more than 30 percent, and would be determined by the Corporation from time to time and calibrated based on the portfolio’s backtesting results during a time period of not less than the previous 12 months.~~

III. the sum of:

- A. the net directional market value of the portfolio, which shall be the absolute difference between the market value of the long positions and the short positions in the portfolio, multiplied by a percentage; such percentage shall be determined by the Corporation based on a percentile of the annual historical volatility levels of relevant equity indices (which shall be no less than the historical minimum volatility of the indices), as determined by the Corporation from time to time; and
- B. the balanced market value of the portfolio, which shall be the lowest corresponding market value of long positions and short positions in the portfolio, multiplied by a percentage; such percentage shall be a fraction of the percentage used in (A) above, determined by the Corporation from time to time by considering the model backtesting performance of the applicable balanced portfolios.

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<sup>7</sup>~~If the one-year stress period overlaps with the ten-year look-back, only the non-overlapping period will be combined with the look-back window.~~

III. if the sum of the absolute gross market values of the two largest non-diversified non-index position Net Balance Order Unsettled Positions<sup>4</sup> in the portfolio represents more than a percentage designated by the Corporation from time to time 30 percent of the value of the gross market value of the entire portfolio (the “concentration threshold”), an amount determined by adding the sum of:

A. multiplying the product of (1) the gross market value of such the largest non-diversified Net Balance Order Unsettled Position position by a percentage designated by the Corporation and (2) the gap risk haircut, which percentage shall be not less than 405 percent; and

B. the product of (1) the gross market value of the second largest non-diversified Net Balance Order Unsettled Position and (2) a gap risk haircut, which shall be no larger than the gap risk haircut applied to the largest Net Balance Order Unsettled Position and which shall be not less than 2.5 percent. Such percentage shall be determined by selecting the largest of the 1st and 99th percentiles of three-day returns of a composite set of equities, using a look-back period of not less than 10 years that includes a one-year stress period,<sup>9</sup> and then rounding the result up to the nearest whole percentage.

The concentration threshold ~~shall~~would be no more than 30 percent; The concentration threshold and the gap risk haircuts shall~~would~~ be determined by the Corporation from time to time and calibrated based on ~~the portfolio’s~~backtesting results and impact analysis during a time period of not less than the previous 12 months. The Corporation would announce updates of the concentration threshold and gap risk haircuts by Important Notice.

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<sup>4</sup> The Corporation shall exclude exchange-traded fund positions from the calculation if the positions have characteristics that indicate that they are less prone to the effects of gap risk events, as determined by the Corporate from time to time. Such characteristics include whether the exchange-traded fund positions track to an index that is linked to a broad based market index, contain a diversified underlying basket, are unleveraged or track to an asset class that is less prone to gap risk.

<sup>9</sup> ~~If the one-year stress period overlaps with the ten-year look-back, only the non-overlapping period will be combined with the look-back window.~~