8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-77990; File No. SR-NSCC-2016-001)

June 3, 2016

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change to Remove from the DTCC Limit Monitoring Tool the 50% Early Warning Limit Alert and Make Technical Revisions to the Rules

On April 18, 2016, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-NSCC-2016-001 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] to amend NSCC's Rules and Procedures ("Rules")[3] in order to (i) remove from the DTCC Limit Monitoring tool the alert that is sent to Members when trading activity in any of their Risk Entities reaches 50% of the pre-set trading limits for that Risk Entity and (ii) to make related technical changes and corrections to the Rules, as more fully described below. The proposed rule change was published for comment in the Federal Register on May 2, 2016.[4] The Commission did not receive any comment letters on the proposed rule change. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

I. Description of the Proposed Rule Change

The following is a description of the proposed rule change, as provided by NSCC:

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Available at http://dtcc.com/~/media/Files/Downloads/legal/rules/nscc_rules.pdf. Terms not defined herein are defined in the Rules.

4 See Securities Exchange Act Release No. 77709 (April 26, 2016), 81 FR 26274 (May 2, 2016) (SR-NSCC-2016-001).

Reasons for Adopting the Proposed Rule Change. NSCC provides its Members with a risk management tool called DTCC Limit Monitoring, for which certain types of Members are required to register.[5] DTCC Limit Monitoring enables Members that use the tool to monitor post-trade activity and to be notified when pre-set trading limits are reached. To use the tool, Members must (1) define one or more "Risk Entities," which may include (i) the trading activity of a single trading desk within the firm; (ii) for Members that clear trades for other firms, i.e., their correspondents, the trading activity of a correspondent firm; (iii) for Members acting as a Special Representative or a QSR, as such terms are defined in the Rules,[6] the trading activity of a firm with which it has a clearing relationship; (iv) the trading activity of a single clearing number within the Member's NSCC account structure; or (v) all trading activity of the Member submitted to NSCC for clearing; and (2) set a trading limit, at a net notional value, for each Risk Entity. DTCC Limit Monitoring then sets early warning limits at 50%, 75%, and 90% of those trading limits.[7] Members receive alerts when trading activity for their Risk Entities reaches each of these early warning limits, as well as the pre-set trading limits.

Since the implementation of DTCC Limit Monitoring in 2014, NSCC has periodically met with a working group of its Members to discuss the functioning of the tool and to confirm it provides Members with effective post-trade surveillance as

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5 Rule 54 (DTCC Limit Monitoring) and Procedure XVII (DTCC Limit Monitoring), supra note 3; see Securities Exchange Act Release No. 71637 (February 28, 2014), 79 FR 12708 (March 6, 2014) (SR-NSCC-2013-12).

6 Rule 7 (Comparison and Trade Recording Operation) and Procedure IV (Special Representative Service), supra note 3.

7 Rule 54 (DTCC Limit Monitoring) and Procedure XVII (DTCC Limit Monitoring, supra note 3.

intended. In response to Member feedback provided during these discussions, NSCC has proposed to remove the 50% early warning alert for the reasons described below.

Additionally, NSCC has proposed to make technical revisions to Procedure XVII (DTCC Limit Monitoring Procedure) primarily to revise the verb tense and add clarity regarding use of the tool.

Issues the Proposed Rule Change Is Intended to Address. The proposed rule change will address concerns that (1) the 50% early warning alert is set too low and, thus, may not provide Members with useful information for purposes of effective post-trade monitoring; (2) the frequency of the 50% early warning alert could have a negative impact on Member responsiveness to more critical alerts; and (3) the verb tense and certain other language in the Rule may be unclear and/or technically inaccurate.

Manner in which the Proposed Rule Change Will Operate to Resolve the Issues. The proposed rule change will remove the 50% early warning alert from DTCC Limit Monitoring. DTCC Limit Monitoring will retain the 75% and 90% early warning alerts, which continue to provide Members with valuable notice of changes in their post-trade activity for purposes of effective risk management.

Additionally, the proposed rule change will make certain technical changes that will clarify the Rule, primarily by updating the verb tense from future tense to present tense to reflect the present applicability of the Rule and by making certain other technical clarifications to language used in the Rule.

Manner in which the Proposed Rule Change Will Affect Various Persons. Members that use DTCC Limit Monitoring will no longer receive the 50% early warning alert, but they will continue to receive alerts when their trading activity in each Risk Entity reaches 75% and 90% of their pre-set trading limits. No other changes are proposed with respect to the functioning of DTCC Limit Monitoring.

The proposed technical changes are not anticipated to have any effect on Members that use DTCC Limit Monitoring.

Significant Problems Known to the Self-Regulatory Organization that Persons Affected Are Likely to Have in Complying with the Proposed Rule Change. Members that use DTCC Limit Monitoring will not have to take any action as a result of the proposed rule change, and NSCC is not aware of any problems that Members will have in continuing to comply with the Rules[8] that address DTCC Limit Monitoring after the implementation of the proposed rule change.

As stated above, the proposed technical changes are not anticipated to have any effect on Members that use DTCC Limit Monitoring.

Description of the Proposed Rule Change. In order to implement this proposed rule change, NSCC will amend Section 4 of Procedure XVII (DTCC Limit Monitoring Procedure) of the Rules to remove reference to the 50% early warning alert and to make certain technical clarifications to language used in the Rule, primarily by updating the verb tense used therein. No other changes to the Rules are contemplated by this proposed rule change.

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8 Id.

II. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act[9] directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. The Commission believes the proposal is consistent with Section 17A(b)(3)(F) of the Act,[10] as described in detail below.

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to protect investors and the public interest.[11] As described above, the 50% early warning alert may not provide Members with information that is useful for purposes of post-trade monitoring, but, rather, may distract Members from such information. By removing the 50% alert, a distraction is removed, thus increasing the effectiveness of the DTCC Limit Monitoring tool for Members to monitor their post-trade activity. Therefore, the proposed rule change will enhance Members' ability to manage risks from their trades, facilitating the protection of investors and the public interest from such risks.

As the proposed rule change pertains to technical changes to the Rules, the Commission finds the technical changes also consistent with Section 17A(b)(3)(F) of the Act[12] because technical updates to the Rules to make them more clear, consistent, and

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9 15 U.S.C. 78s(b)(2)(C).

10 15 U.S.C. 78q-1(b)(3)(F).

11 Id.

12 Id.

current for Members that rely on the Rules supports the prompt and accurate clearance and settlement of securities transactions.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act[13] and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that proposed rule change SR-NSCC-2016-001 be, and hereby is, APPROVED.[14]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[15]

Brent J. Fields
Secretary

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13 15 U.S.C. 78q-1.

14 In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

15 17 CFR 200.30-3(a)(12).

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