

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-100237; File No. SR-NSCC-2024-004)

May 29, 2024

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Decommission the DTCC Limit Monitoring Risk Management Tool

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on May 16, 2024, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consists of amendments to the NSCC Rules & Procedures (“Rules”) to decommission a risk management tool called DTCC Limit Monitoring, as described in greater detail below.³

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Capitalized terms not defined herein shall have the meaning assigned to such terms in the Rules, available at <https://www.dtcc.com/legal/rules-and-procedures.aspx>.

examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to modify the Rules to decommission the DTCC Limit Monitoring risk management tool ("Limit Monitoring"). The proposed rule change is discussed in detail below.

(i) Background

NSCC provides its Members with a risk management tool called DTCC Limit Monitoring, which enables Members to monitor trading activity on an intraday basis of their organizations and/or their correspondent firms through the review of post-trade data.⁴ Limit Monitoring was implemented in 2014 in connection with industry-wide efforts to develop tools and strategies to mitigate and address the risks associated with increasingly complex, interconnected, and automated market technology (such risks include, but are not limited to, trade input errors, software or trading algorithm errors, and inadequate controls for automated processes). Through Limit Monitoring, NSCC Members can establish pre-set limits for their organizations and/or their correspondent firms to monitor trading activity and review notifications that are delivered when these pre-set limits are being approached and when they are reached. Limit Monitoring was

⁴ See Securities Exchange Act Release Nos. 71637 (Feb. 28, 2014), 79 FR 12708 (Mar. 6, 2014) (File No. SR-NSCC-2013-12) and 77990 (June 3, 2016), 81 FR 37229 (June 9, 2016) (File No. SR-NSCC-2016-001).

intended to supplement Members' existing internal risk management processes.⁵ Any actions Members determine to take in response to Limit Monitoring alerts are the Member's responsibility and are taken away from NSCC. Limit Monitoring is primarily discussed in Rule 54 and Procedure XVII.⁶

(ii) Proposed Changes to the Rules

As discussed above, Limit Monitoring was created as part of a broader industry-wide effort to develop tools and strategies to mitigate and address trading risks. Since the implementation of Limit Monitoring in 2014, U.S. equity exchanges have also implemented risk controls to mitigate risks inherent with direct exchange transaction flow (such controls include, but are not limited to, credit limits, single order limits, and kill switch functionality).⁷ These exchange risk controls are optional risk management tools made available to exchange members to assist them in monitoring and managing their risks. In addition, broker-dealers have continued to enhance their own internal risk management systems and processes to manage their trading risks.

⁵ In 2022, NSCC modified Rule 54 and Procedure XVII to make Limit Monitoring a voluntary tool for all Members and eliminate the requirement that certain specified Members register for Limit Monitoring. See Securities Exchange Act Release No. 95723 (Sept. 9, 2022), 87 FR 56724 (Sept. 15, 2022) (File No. SR-NSCC-2022-012).

⁶ See supra note 3.

⁷ See, e.g., Securities Exchange Act Release Nos. 88599 (Apr. 8, 2020), 85 FR 20793 (Apr. 14, 2020) (File No. SR-CboeBZX-2020-006); 88776 (Apr. 29, 2020), 85 FR 26768 (May 5, 2020) (File No. SR-NYSE-2020-17); 88904 (May 19, 2020), 85 FR 31560 (May 26, 2020) (File No. SR-NYSEArca-2020-43); 89225 (July 6, 2020), 85 FR 41650 (July 10, 2020) (File No. SR-NASDAQ-2020-034).

NSCC currently makes Limit Monitoring available to all full-service Members to use on a voluntary basis.⁸ Limit Monitoring is intended to supplement, and not replace, a Member's own internal systems and procedures or other tools, such as exchange pre-trade risk controls, available to the Member for managing its risks. NSCC does not require Members to take any particular actions based on the output of Limit Monitoring, and any actions Members determine to take in response to Limit Monitoring alerts are performed away from NSCC. Moreover, NSCC does not use Limit Monitoring for its own internal clearance, settlement, or risk management purposes.

The technology platform currently used by NSCC to maintain the data infrastructure for Limit Monitoring is nearing the end of its lifecycle. As a result, NSCC would need to invest significant resources to replace this platform in order to continue to offer Limit Monitoring to Members. NSCC has conducted internal review and performed initial outreach to Members to evaluate their use of Limit Monitoring. The review and outreach indicated that a majority of Members either do not use Limit Monitoring or do not rely on it extensively to manage their risks. Members that do not use Limit Monitoring or make only limited use of it have noted that they primarily rely on other industry or in-house tools to monitor and evaluate these risks. Additionally, several Members that do currently use Limit Monitoring informed NSCC that they would be able to work around the elimination of this tool. There were no Members that raised significant concerns or objections to the decommissioning of Limit Monitoring, or that indicated they could not accommodate the elimination of the tool. Given the evolution in industry-wide risk control tools and processes since the implementation of Limit

⁸ See supra note 5.

Monitoring in 2014 and the limited usage of Limit Monitoring by Members, NSCC is proposing to decommission the Limit Monitoring tool.

To implement the proposed rule change, NSCC would remove Rule 54 and Procedure XVII from the Rules. NSCC would also remove associated defined terms “LM Member-provided Data,” “LM Trade Date Data,” “LM Transaction Data,” “RP Member-provided Data,” “RP Trade Date Data,” and “RP Transaction Data” from Rule 1. Finally, NSCC would remove Section 2(i) of Rule 58 concerning the limitations on NSCC’s liability for the completeness or accuracy of LM Trade Date Data, LM Member-provided Data, LM Transaction Data, or other information or data which it receives from Members or third parties and which is utilized in DTCC Limit Monitoring, or for any errors, omissions or delays which may occur in the transmission of such data or information.

Implementation Timeframe

Subject to approval by the Commission, NSCC would implement the proposed rule change on November 15, 2024.

2. Statutory Basis

NSCC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. Section 17A(b)(3)(F) of Act⁹ requires, in part, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. NSCC believes

⁹ 15 U.S.C. 78q-1(b)(3)(F).

the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of Act for the reasons set forth below.

As discussed above, the technology platform currently used by NSCC to maintain the data infrastructure for Limit Monitoring is nearing the end of its lifecycle. As a result, NSCC would need to invest significant resources to replace this platform to continue offering Limit Monitoring to Members. Limit Monitoring is a voluntary tool that is intended to supplement, and not replace, a Member's own internal systems and procedures or other tools, such as exchange pre-trade risk controls, available to the Member for managing its risks. NSCC does not require Members to take any particular action based on the output of Limit Monitoring, and any actions Members determine to take in response to Limit Monitoring alerts are performed away from NSCC. Moreover, NSCC does not use the Limit Monitoring tool for its own internal purposes to promote or facilitate the clearance, settlement, or risk management of securities transactions.

NSCC's internal analysis and preliminary outreach to Members indicated that a majority of Members either do not use Limit Monitoring or do not rely on it extensively to manage their risks. Members that do not use Limit Monitoring or make only limited use of it noted that they primarily rely on other industry or in-house tools to monitor and evaluate these risks. Certain other Members that do currently use Limit Monitoring informed NSCC that they would be able to work around the elimination of this tool. Given the voluntary and supplemental nature of Limit Monitoring, the limited use of Limit Monitoring by Members, and the evolution and improvement of industry-wide risk control tools and processes since the implementation of Limit Monitoring in 2014, NSCC is proposing to decommission the Limit Monitoring tool.

For reasons set forth above, NSCC believes that decommissioning the Limit Monitoring tool would not impact the prompt and accurate clearance and settlement of securities transactions by NSCC or the safeguarding of securities and funds in NSCC's custody or control or for which it is responsible. NSCC's rules would therefore continue to be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to assure the safeguarding securities and funds in accordance with Section 17A(b)(3)(F) of the Act.¹⁰

(B) Clearing Agency's Statement on Burden on Competition

Section 17A(b)(3)(I) of Act¹¹ requires that the rules of a clearing agency do not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change would impact certain Members to a greater extent than others; however, NSCC does not believe that the proposed rule change would have an impact significant enough to present a burden on competition. NSCC's internal analysis and preliminary outreach indicated that a majority of NSCC Members either do not use Limit Monitoring or do not rely on it extensively to manage their risks. Members that do not use Limit Monitoring or make only limited use of it noted that they primarily rely on other industry or in-house tools to monitor and evaluate these risks. Certain Members that do currently use Limit Monitoring informed NSCC that they would be able to work around the elimination of this tool. Those Members may need to expend resources to acquire industry tools or solutions or develop in-house tools of their own to replace their use of Limit Monitoring. However, NSCC does not believe that the impact

¹⁰ Id.

¹¹ 15 U.S.C. 78q-1(b)(3)(I).

would be significant enough to impose a burden on competition, particularly as it relates to the use of NSCC's services. Therefore, NSCC does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

NSCC has not received or solicited any written comments relating to this proposal. If any written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit-comments>. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

NSCC reserves the right not to respond to any comments received.

III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds

such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change

should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NSCC-2024-004 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-NSCC-2024-004. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<https://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed

with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of NSCC and on DTCC's website (<https://dtcc.com/legal/sec-rule-filings.aspx>). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-NSCC-2024-004 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹²

Sherry R. Haywood,

Assistant Secretary.

¹² 17 CFR 200.30-3(a)(12).