SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-100486; File No. SR-NSCC-2024-004)

July 10, 2024

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

I. INTRODUCTION

On May 16, 2024, The National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-NSCC-2024-004, pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder (the "Proposed Rule Change").[2] The Proposed Rule Change was published for comment in the Federal Register on June 4, 2024.[3] The Commission has received no comments on the Proposed Rule Change. For the reasons discussed below, the Commission is approving the Proposed Rule Change.

II. BACKGROUND

DTCC Limit Monitoring is a risk management tool currently made available to all NSCC Members. Limit Monitoring is a voluntary tool that is intended to supplement, and not replace, a Member's internal risk management systems, procedures, or use of other available industry tools.[4] Limit Monitoring enables Members to monitor trading activity on an intraday basis for their organizations and/or correspondent firms using post-trade data by allowing Members to establish pre-set limits to monitor trading activity and to receive notifications when these pre-set

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

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 100237 (May 29, 2024), 89 FR 48019 (Jun. 4, 2024) (File No. SR-NSCC-2024-004) ("Notice of Filing").

4 See id. at 48019.

limits are being approached and reached.[5] NSCC does not require Members to take any particular action based on the output of Limit Monitoring, and any response by Members to a Limit Monitoring alert is performed away from NSCC.[6]

NSCC states that DTCC Limit Monitoring was created as part of a broader industry-wide effort to develop tools and strategies to mitigate and address trading risks associated with complex, interconnected, and automated market technology.[7] NSCC further states that, since the implementation of Limit Monitoring in 2014, U.S. equity exchanges have implemented certain optional risk management tools including, but not limited to, credit limits, single order limits, and kill switch functionality, which provide additional risk management tools for Members to supplement their internal controls.[8] NSCC also states that broker-dealers have also continued to enhance their own internal risk management systems.[9]

III. DESCRIPTION OF THE PROPOSED RULE CHANGE

The Proposed Rule Change would decommission the Limit Monitoring tool. NSCC states that the technology platform to maintain the data infrastructure for Limit Monitoring will soon need to be replaced, which would require the investment of significant resources to continue to offer Limit Monitoring.[10] NSCC conducted outreach to evaluate its Members' use of Limit

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5 See NSCC Rules and Procedures, Rule 54, available at https://www.dtcc.com/legal/rules-and-procedures.aspx.

6 See Notice of Filing, supra note 3, at 48019.

7 See id.

8 See id.

9 See id.

10 See id.

Monitoring. The outreach indicated that a majority of Members either do not use Limit Monitoring or do not rely on it extensively to manage their risks.[11] Members that do not use or make only limited use of Limit Monitoring primarily rely on other industry or in-house tools to monitor and evaluate risks.[12] NSCC conducted follow up outreach with those Members that do currently use Limit Monitoring, identifying no Members that raised significant concerns or objections to the decommissioning of Limit Monitoring.[13] Therefore, NSCC has determined that it would no longer offer the Limit Monitoring tool, given the significant investment needed to continue to offer Limit Monitoring, the evolution in industry-wide risk control tools and processes since the implementation of Limit Monitoring in 2014, and the limited usage of Limit Monitoring by Members.[14]

To implement the Proposed Rule Change, NSCC would remove Rule 54 and Procedure XVII from their Rules.[15] NSCC would also remove associated defined terms from Rule 1.[16] 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

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11 See id.

12 See id.

13 See id.

14 See id.

15 See supra note 5.

16 "LM Member-provided Data," "LM Trade Date Data," "LM Transaction Data," "RP Member-provided Data," "RP Trade Date Data," and "RP Transaction Data."

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.

IV. DISCUSSION AND COMMISSION FINDINGS

Section 19(b)(2)(C) of the Act[17] 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. After carefully considering the Proposed Rule Change, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC. In particular, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F)[18] of the Act.

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency, such as NSCC, be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions and, in general, to protect investors and the public interest.[19] The Commission believes that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act for the reasons stated below.

As described in Part II above, Limit Monitoring is a voluntary tool intended to supplement a Member's internal risk management processes and use of other available tools. Although the tool was created in response to an industry-wide need due to trading risks associated with new market technologies in 2014, there now is a broader range of options available to Members to help manage these risks. Limit Monitoring is not a widely used risk

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17 15 U.S.C. 78s(b)(2)(C).

18 15 U.S.C. 78q-1(b)(3)(F).

19 Id.

management tool, and those who do use it did not raise significant concerns about its elimination. Given that NSCC would need to invest significant resources to continue to offer Limit Monitoring to its Members, decommissioning the Limit Monitoring tool should allow NSCC to determine where to allocate the resources that would have been used on updating the Limit Monitoring technology to better react to the changing needs of market participants who rely on NSCC's central role in the securities market. This ability to allocate resources should, in turn, help NSCC to continue to promote the prompt and accurate clearance and settlement of securities transactions by NSCC, consistent with the requirements of Section 17A(b)(3)(F) of the Exchange Act.[20]

Accordingly, and for the reasons stated above, the proposed changes are consistent with Section 17A(b)(3)(F).

V. CONCLUSION

Based on the foregoing, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act[21] and the rules and regulations promulgated thereunder.

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20 15 U.S.C. 78q-1(b)(3)(F)

21 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act[22] that proposed rule changes SR-NSCC-2024-004 be, and hereby are, APPROVED.[23]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[24]

Vanessa A. Countryman,

Secretary.

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[22] 15 U.S.C. 78s(b)(2).

[23] In approving the Proposed Rule Change, the Commission considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

[24] 17 CFR 200.30-3(a)(12).