

## OMB APPROVAL

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Required fields are shown with yellow backgrounds and asterisks.

Page 1 of \* 31

SECURITIES AND EXCHANGE COMMISSION  
 WASHINGTON, D.C. 20549  
 Form 19b-4

File No.\* SR - 2013 - \* 12  
 Amendment No. (req. for Amendments \*)

Filing by National Securities Clearing Corporation

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

|                                     |   |  |   |                          |                          |
|-------------------------------------|---|--|---|--------------------------|--------------------------|
| Initial *                           | Amendment *   | Withdrawal                             | Section 19(b)(2) *  | Section 19(b)(3)(A) *    | Section 19(b)(3)(B) *    |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>  | <input type="checkbox"/>               | <input checked="" type="checkbox"/>   | <input type="checkbox"/> | <input type="checkbox"/> |
| Pilot<br><input type="checkbox"/>   | Extension of Time Period<br>for Commission Action *<br><input type="checkbox"/> | Date Expires *<br><input type="text"/> | Rule<br><input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4)<br><input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5)<br><input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6) |                          |                          |

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Security-Based Swap Submission pursuant  
 to the Securities Exchange Act of 1934

Section 806(e)(1)

Section 806(e)(2)

Section 3C(b)(2)



Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document



### Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

To provide NSCC Members with a risk management tool that would allow those Members to monitor trading activity and would deliver to them notifications when pre-set trading limits are reached.

### Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \* Jacqueline Last Name \* Farinella  
 Title \* Director and Senior Associate Counsel  
 E-mail \* jfarinella@dtcc.com  
 Telephone \* (212) 855-3216 Fax

### Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date 11/15/2013

By Larry E. Thompson

(Name \*)

Managing Director and General Counsel

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Persona Not Validated - 1356725050802,

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFT website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies**

Add Remove View

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**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

Add Remove View

Exhibit Sent As Paper Document

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

Add Remove View

Exhibit Sent As Paper Document

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

## **1. Text of the Proposed Rule Change**

(a) The proposed rule change is filed by National Securities Clearing Corporation (“NSCC”) in connection with modifications to NSCC’s Rules & Procedures (“Rules”) to provide NSCC Members with a risk management tool that would allow those Members to monitor trading activity and would deliver to them notifications when pre-set trading limits are reached.

(b) Not applicable.

(c) Not applicable.

## **2. Procedures of the Self-Regulatory Organization**

(a) The proposed change was approved by the Risk Committee of the Board of Directors of NSCC at a meeting duly called and held on August 14, 2013.

## **3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

### **(a) Introduction**

In connection with recent industry-wide efforts to develop tools and strategies to mitigate and address the risks associated with the increasingly complex, interconnected, and automated market technology,<sup>1</sup> NSCC has developed a risk management tool, called “DTCC Limit Monitoring,” that would provide its Members with post-trade surveillance.<sup>2</sup> The proposed DTCC Limit Monitoring would provide NSCC’s Members with a tool to monitor the intraday clearing activity of their own trading desks and the intraday clearing activity for their correspondents and clients. The tool would send out alerts to those Members when pre-set trading limits with respect to this clearing activity is being approached and is reached, allowing them to monitor exposure of this trading activity, and providing them with notice when there is an unusual or unexpected spike in trading activity that could indicate a trading error, or that a customer is trading outside the limits set by its clearing firm.

### **DTCC Limit Monitoring Proposal Overview**

Pursuant to this filing, NSCC proposes to amend its Rules to create “DTCC Limit Monitoring,” a risk management tool that would enable Members to monitor both their own intraday trading activity and the intraday trading activity of their correspondents and/or clients. DTCC Limit Monitoring would be available to all NSCC Members. The effectiveness of DTCC

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<sup>1</sup> While other market participants may be developing additional risk management tools in connection with these recent industry-wide efforts, the proposed DTCC Limit Monitoring would be separate from and would operate completely independently from any such tools.

<sup>2</sup> For the purposes of this proposed rule change, “post-trade” refers to the period in a transaction life cycle after it has been submitted to NSCC for clearing and settlement.

Limit Monitoring in addressing risk depends on its use by NSCC Members, particularly those Members that clear for other firms, and depends on their inclusion of the tool within their broader risk management strategies. As such, NSCC is proposing to require that the following NSCC Members register for DTCC Limit Monitoring: (1) any NSCC full service Member that clears for others; (2) any NSCC full service Member that submits transactions to NSCC's trade capture system either as a Qualified Special Representative (QSR) or Special Representative, pursuant to Procedure IV (Special Representative Service); and (3) any NSCC full service Member that has established a 9A/9B relationship in order to allow another NSCC Member (either a QSR or Special Representative) to submit locked in trade data on its behalf. NSCC Members would incur minimal, if any, cost to implement DTCC Limit Monitoring. The tool would provide NSCC Members with an additional method to monitor the post-trade activity of their own trading desks and the activity of their correspondents and/or clients.

DTCC Limit Monitoring would provide NSCC Members with: (i) post-trade data relating to unsettled equity and fixed income securities trades for a given day that have been compared or recorded through NSCC's trade capture mechanisms on that day ("LM Trade Date Data"), and (ii) other information based upon data the participating Member may itself provide at start of or throughout the day ("LM Member-provided Data"), as provided in the Rules governing DTCC Limit Monitoring (LM Trade Date Data and LM Member-provided Data shall collectively be referred to as "LM Transaction Data"). Members registered for DTCC Limit Monitoring would be permitted to input or load trade information from prior days to the system on their own to supplement their view of overall risk exposure, and to monitor their trading exposure.

#### *Description of DTCC Limit Monitoring*

Through DTCC Limit Monitoring, NSCC would utilize market transactions and other information to report post-trade activity to Members. Members would only receive data related to their own trading desks and the activity of their correspondents and/or clients. Such reporting would incorporate transactions (defined above as "LM Trade Date Data") in equity, and municipal and corporate debt securities after such transactions have: (i) passed through NSCC's edit checks, i.e. validated, and not been pended or rejected, and (ii) been recorded or compared through NSCC's Universal Trade Capture and/or Real-Time Trade Matching trade capture and comparison systems. In addition, DTCC Limit Monitoring would allow Members to input or load start of day and/or intra-day positions (defined above as "LM Member-provided Data") so as to be able to view their organization's (or one or more of their correspondents' or clients') aggregate open positions in securities cleared through NSCC.

Within DTCC Limit Monitoring, Members would be required to create "Risk Entities", as described further below, to track such activity for their correspondents and clients, as well as their own trading desks, and define the rules for the aggregation of trade data, set trading limits on open positions allowable for each Risk Entity, and receive alerts for the display of breaches or near breaches of the trading limits. DTCC Limit Monitoring would provide a screen-based view for individual Members of their trade data residing in DTCC Limit Monitoring for a given day aggregated and organized according to trading limits set by the Member. Displays provided to Members would offer Members the option to view aggregate and net value across markets and other liquidity destinations, as well as provide them an ability to see exposure at the CUSIP and individual trade levels. In conformance with NSCC's Rule 49 (Release of Clearing Data and

Clearing Fund Data), each Member would only be able to view information with respect to its own clearing account(s).

DTCC Limit Monitoring would be a reporting tool only and any action by a Member as a result of any alerts, or other information associated with the risk management tool would be at the discretion of the Member and would not, nor imply that any such action was effected, either in whole or part, by NSCC. Furthermore, alerts that an established trading limit has been breached would not automatically trigger a block by NSCC on any activity processed through NSCC's clearance and settlement systems.

### *Procedural Considerations of DTCC Limit Monitoring*

#### A. Establishing and Maintaining Risk Entities and Limits

As an initial step in utilizing DTCC Limit Monitoring, Members would establish Risk Entities. These might include the trading activity of a single desk, a correspondent, a single clearing number within the Member's NSCC account structure, or the overall firm. Members required to use DTCC Limit Monitoring would be required to create a Risk Entity for their own trading desks as well as for all correspondents and clients for which they clear trades through NSCC. DTCC Limit Monitoring would provide Members with the ability to create Risk Entities through the definition and updating of the data structure and relationships for the entities to which they assign a trading limit at a net notional value.<sup>3</sup> These trading limits are also referred to in the proposed Rules governing DTCC Limit Monitoring as "parameters." The Risk Entity definitions entered by Members would drive position calculations and displays in DTCC Limit Monitoring. DTCC Limit Monitoring would provide Members with a facility to set dollar limits with respect to each Risk Entity at a net notional level, and it may provide for additional limits as NSCC determines from time to time.

Members would be required to review reports and alerts on an on-going basis and, as necessary, modify established trading limits to reflect current trading activities within each of their Risk Entities. Changes made by Members with respect to established trading limits would be made in real time. All other updates and changes made by Members to their Risk Entities would take effect overnight. While Members would ultimately be responsible for ensuring that the trading limits set on trading activity are appropriate, NSCC staff would be able to review trade activity reports and alerts, and, at its discretion, may contact Members to discuss any concerns, for example if the established trading limits are not aligned with recent average trading activity. Members would be required to identify contacts within their firms for these purposes.

#### B. Limit Monitoring Function

DTCC Limit Monitoring would aggregate and make available position information for purposes of the Member's limit monitoring. The aggregate data would be the sum of: (a) LM Member-provided data, and (b) LM Trade Date Data, with the aggregated data referred to in the

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<sup>3</sup> "Net notional" means the sum of the absolute value of exposure for each ticker security symbol. For example, a firm that is net long in Company X for \$50,000 and net short position in Company Z for \$100,000 has \$150,000 in net notional exposure.

Rules as “LM Transaction Data.” Under the proposal, LM Trade Date Data, LM Member-provided Data, and other relevant data would be aggregated and sorted, and the data would then be displayed to the Member.

The totals would be compared to the trading limits set by the Members and the Members would be alerted to breaches based upon these limits. NSCC would set “early warning” limits at 50%, 75%, and 90% of the trading limits set by Members for each Risk Entity. Members may elect to receive early warning and breach alerts through on-screen interface within the DTCC Limit Monitoring, an e-mail alert, and/or an automated electronic message. DTCC Limit Monitoring would also provide updated information when the alert is resolved (i.e., when the Risk Entity is within the relevant limit, for example, as a result of an offsetting transaction reducing the position or the Member raises the limit for a Risk Entity). Information such as alert history, Members’ Risk Entity definitions, end of day positions, and other data as NSCC provides from time to time would be supplied to Members in reports delivered both daily, in an end-of-day report, and monthly. Members would be required to identify primary and secondary contacts within their firm to receive alerts and these reports.

C. No Effect on Trade Guaranty and Other Considerations

The proposed rule change would provide that any reports and data supplied to Members through DTCC Limit Monitoring are not intended to impact the timing or status of NSCC’s guaranty of any transaction in CNS or Balance Order Securities. In addition, the issuance of information or data through DTCC Limit Monitoring to Members, or lack thereof, would not of itself indicate or have any bearing on the status of any trade, including but not limited to, as compared, locked-in, validated, guaranteed, or not guaranteed.

D. Limitation of Liability

DTCC Limit Monitoring would provide Members with a risk management tool in which they can review and monitor trade activity in a manner they select, and providing Members with the ability to populate the system by inputting or loading positions, defining Risk Entities and setting related limits, and receiving alerts and position data of their choosing, for example. Accordingly, since NSCC would not be the originator of information made available through DTCC Limit Monitoring, the proposed Rule would provide that NSCC is not responsible for the completeness or accuracy of LM Trade Date Data or other information or data which it receives from Members or third parties and which is utilized in DTCC Limit Monitoring or received and compared or recorded by NSCC, nor for any errors, omissions, or delays which may occur in the transmission of such data or information. In addition, not all transactions are submitted to NSCC on a real-time basis, thus NSCC can only provide Members using DTCC Limit Monitoring with LM Trade Date Data as it is compared or recorded. Accordingly, Members should be aware that such LM Trade Date Data may not be complete.

E. Indemnification

Since each Member may use the information in DTCC Limit Monitoring for purposes of its own discretion, the proposed rule change would provide that any Member that registers for DTCC Limit Monitoring shall indemnify NSCC, and any of its employees, officers, directors,

shareholders, agents, and participants who may sustain any loss, liability, or expense as a result of a third party claim related to any act or omission of the Member made in reliance upon data or information transmitted by NSCC to the Member through DTCC Limit Monitoring.

#### *Implementation Timeframe*

Following regulatory approval, NSCC would implement the changes set forth in this filing on a date no earlier than ten (10) days following notice to Members through issuance of an NSCC Important Notice.

#### *Proposed Rule Changes*

NSCC proposes to create a new Rule 54 (DTCC Limit Monitoring) and Procedure XVII (DTCC Limit Monitoring) to reflect the proposed rule changes described above. The proposed rule change would also amend Rule 58 (Limitations of Liability) to reflect the limitation of liability provision described above. In addition, Rule 1 (Definitions) would be updated to include definitions for “LM Trade Date Data,” “LM Member-provided Data,” and “LM Transaction Data.”

(b) The proposed DTCC Limit Monitoring will facilitate the prompt and accurate clearance and settlement of securities transactions by providing NSCC’s Members with a mechanism to monitor post-trade activity on an intra-day basis and thereby allow for enhanced risk management by those Members. Therefore, NSCC believes the proposed rule change is consistent with the requirements of the Securities Exchange Act of 1934, as amended (“Act”) and the rules and regulations thereunder applicable to NSCC, in particular Section 17A(b)(3)(F) of the Act,<sup>4</sup> which requires that NSCC’s Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and, in general, to protect investors and the public interest.

#### **4. Self-Regulatory Organization’s Statement on Burden on Competition**

As stated above, the proposed DTCC Limit Monitoring would provide Members with a mechanism with which to monitor post-trade activity on an intra-day basis and, thereby, allow for enhanced risk management by those Members. NSCC believes that the effectiveness of DTCC Limit Monitoring in addressing risk depends on its use by NSCC Members, particularly those Members that clear for other firms, and depends on their inclusion of the tool within their broader risk management strategies. Approximately 85% of NSCC’s Members would be required to use DTCC Limit Monitoring under the proposed rule change. NSCC Members would incur minimal, if any, cost in implementing DTCC Limit Monitoring. Therefore, NSCC does not believe that the proposed rule change would impose any burden on competition.

Furthermore, because NSCC believes that any impact DTCC Limit Monitoring has in addressing risk would facilitate the prompt and accurate clearance and settlement of securities transactions and protect investors and the public interest, in furtherance of the requirements of the Act applicable to NSCC, any burden on competition the proposed rule change is perceived as

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<sup>4</sup> 5 U.S.C. 78q-1(b)(3)(F).

imposing would be both necessary and appropriate in furtherance of the purposes of the Act, in particular Section 17A(b)(3)(F) of the Act, cited above.

**5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

Written comments relating to the proposed rule change have not yet been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

**6. Extension of Time Period for Commission Action**

NSCC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission action.

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)**

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.
- (d) Not applicable.

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The proposed rule change is not based on the rules of another self-regulatory organization or of the Commission.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act**

Not applicable.

**11. Exhibits**

Exhibit 1 – Not applicable

Exhibit 1A – Notice of proposed rule change and advance notice for publication in the Federal Register

Exhibit 2 – Not applicable



Exhibit 3 – Not applicable

Exhibit 4 – Not applicable

Exhibit 5 – Proposed Changes to NSCC's Rules

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_]; File No. SR-NSCC-2013-12

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Provide NSCC Members with a Risk Management Tool That Would Allow Those Members to Monitor Trading Activity and Would Deliver to Them Notifications When Pre-Set Trading Limits Are Reached

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November \_\_, 2013, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Item I, II and III below, which Items have been prepared primarily 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 consist of amendments to the Rules & Procedures (“Rules”) of NSCC to provide NSCC Members with a risk management tool that would allow those Members to monitor trading activity and would deliver to them notifications when pre-set trading limits are reached, as more fully described below.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

In its filing with the Commission, NSCC 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 examined at the places specified in Item IV below. NSCC 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

Introduction

In connection with recent industry-wide efforts to develop tools and strategies to mitigate and address the risks associated with the increasingly complex, interconnected, and automated market technology,<sup>3</sup> NSCC has developed a risk management tool, called "DTCC Limit Monitoring," that would provide its Members with post-trade surveillance.<sup>4</sup> The proposed DTCC Limit Monitoring would provide NSCC's Members with a tool to monitor the intraday clearing activity of their own trading desks and the intraday clearing activity for their correspondents and clients. The tool would send out alerts to those Members when pre-set trading limits with respect to this clearing activity

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<sup>3</sup> While other market participants may be developing additional risk management tools in connection with these recent industry-wide efforts, the proposed DTCC Limit Monitoring would be separate from and would operate completely independently from any such tools.

<sup>4</sup> For the purposes of this proposed rule change, "post-trade" refers to the period in a transaction life cycle after it has been submitted to NSCC for clearing and settlement.

is being approached and is reached, allowing them to monitor exposure of this trading activity, and providing them with notice when there is an unusual or unexpected spike in trading activity that could indicate a trading error, or that a customer is trading outside the limits set by its clearing firm.

*DTCC Limit Monitoring Proposal Overview*

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DTCC Limit Monitoring would provide NSCC Members with: (i) post-trade data relating to unsettled equity and fixed income securities trades for a given day that have been compared or recorded through NSCC's trade capture mechanisms on that day ("LM Trade Date Data"), and (ii) other information based upon data the participating Member may itself provide at start of or throughout the day ("LM Member-provided Data"), as provided in the Rules governing DTCC Limit Monitoring (LM Trade Date Data and LM Member-provided Data shall collectively be referred to as "LM Transaction Data"). Members registered for DTCC Limit Monitoring would be permitted to input or load trade information from prior days to the system on their own to supplement their view of overall risk exposure, and to monitor their trading exposure.

*Description of DTCC Limit Monitoring*

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Within DTCC Limit Monitoring, Members would be required to create “Risk Entities,” as described further below, to track such activity for their correspondents and clients, as well as their own trading desks, and define the rules for the aggregation of trade data, set trading limits on open positions allowable for each Risk Entity, and receive alerts for the display of breaches or near breaches of the trading limits. DTCC Limit Monitoring would provide a screen-based view for individual Members of their trade data residing in DTCC Limit Monitoring for a given day aggregated and organized according to trading limits set by the Member. Displays provided to Members would offer Members the option to view aggregate and net value across markets and other liquidity destinations, as well as provide them an ability to see exposure at the CUSIP and individual trade levels. In conformance with NSCC’s Rule 49 (Release of Clearing Data and Clearing Fund Data), each Member would only be able to view information with respect to its own clearing account(s).

DTCC Limit Monitoring would be a reporting tool only and any action by a Member as a result of any alerts, or other information associated with the risk management tool would be at the discretion of the Member and would not, nor imply that any such action was effected, either in whole or part, by NSCC. Furthermore, alerts that an established trading limit has been breached would not automatically trigger a block by NSCC on any activity processed through NSCC’s clearance and settlement systems.

*Procedural Considerations of DTCC Limit Monitoring*

A. Establishing and Maintaining Risk Entities and Limits

As an initial step in utilizing DTCC Limit Monitoring, Members would establish Risk Entities. These might include the trading activity of a single desk, a correspondent, a

single clearing number within the Member's NSCC account structure, or the overall firm. Members required to use DTCC Limit Monitoring would be required to create a Risk Entity for their own trading desks as well as for all correspondents and clients for which they clear trades through NSCC. DTCC Limit Monitoring would provide Members with the ability to create Risk Entities through the definition and updating of the data structure and relationships for the entities to which they assign a trading limit at a net notional value.<sup>5</sup> These trading limits are also referred to in the proposed Rules governing DTCC Limit Monitoring as "parameters." The Risk Entity definitions entered by Members would drive position calculations and displays in DTCC Limit Monitoring. DTCC Limit Monitoring would provide Members with a facility to set dollar limits with respect to each Risk Entity at a net notional level, and it may provide for additional limits as NSCC determines from time to time.

Members would be required to review reports and alerts on an on-going basis and, as necessary, modify established trading limits to reflect current trading activities within each of their Risk Entities. Changes made by Members with respect to established trading limits would be made in real time. All other updates and changes made by Members to their Risk Entities would take effect overnight. While Members would ultimately be responsible for ensuring that the trading limits set on trading activity are appropriate, NSCC staff would be able to review trade activity reports and alerts, and, at its discretion, may contact Members to discuss any concerns, for example if the

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established trading limits are not aligned with recent average trading activity. Members would be required to identify contacts within their firms for these purposes.

B. Limit Monitoring Function

DTCC Limit Monitoring would aggregate and make available position information for purposes of the Member's limit monitoring. The aggregate data would be the sum of: (a) LM Member-provided data, and (b) LM Trade Date Data, with the aggregated data referred to in the Rules as "LM Transaction Data." Under the proposal, LM Trade Date Data, LM Member-provided Data, and other relevant data would be aggregated and sorted, and the data would then be displayed to the Member.

The totals would be compared to the trading limits set by the Members and the Members would be alerted to breaches based upon these limits. NSCC would set "early warning" limits at 50%, 75%, and 90% of the trading limits set by Members for each Risk Entity. Members may elect to receive early warning and breach alerts through on-screen interface within the DTCC Limit Monitoring, an e-mail alert, and/or an automated electronic message. DTCC Limit Monitoring would also provide updated information when the alert is resolved (i.e., when the Risk Entity is within the relevant limit, for example, as a result of an offsetting transaction reducing the position or the Member raises the limit for a Risk Entity). Information such as alert history, Members' Risk Entity definitions, end of day positions, and other data as NSCC provides from time to time would be supplied to Members in reports delivered both daily, in an end-of-day report, and monthly. Members would be required to identify primary and secondary contacts within their firm to receive alerts and these reports.



C. No Effect on Trade Guaranty and Other Considerations

The proposed rule change would provide that any reports and data supplied to Members through DTCC Limit Monitoring are not intended to impact the timing or status of NSCC's guaranty of any transaction in CNS or Balance Order Securities. In addition, the issuance of information or data through DTCC Limit Monitoring to Members, or lack thereof, would not of itself indicate or have any bearing on the status of any trade, including but not limited to, as compared, locked-in, validated, guaranteed, or not guaranteed.

D. Limitation of Liability

DTCC Limit Monitoring would provide Members with a risk management tool in which they can review and monitor trade activity in a manner they select, and providing Members with the ability to populate the system by inputting or loading positions, defining Risk Entities and setting related limits, and receiving alerts and position data of their choosing, for example. Accordingly, since NSCC would not be the originator of information made available through DTCC Limit Monitoring, the proposed Rule would provide that NSCC is not responsible for the completeness or accuracy of LM Trade Date Data or other information or data which it receives from Members or third parties and which is utilized in DTCC Limit Monitoring or received and compared or recorded by NSCC, nor for any errors, omissions, or delays which may occur in the transmission of such data or information. In addition, not all transactions are submitted to NSCC on a real-time basis, thus NSCC can only provide Members using DTCC Limit Monitoring with LM Trade Date Data as it is compared or recorded. Accordingly, Members should be aware that such LM Trade Date Data may not be complete.

E. Indemnification

Since each Member may use the information in DTCC Limit Monitoring for purposes of its own discretion, the proposed rule change would provide that any Member that registers for DTCC Limit Monitoring shall indemnify NSCC, and any of its employees, officers, directors, shareholders, agents, and participants who may sustain any loss, liability, or expense as a result of a third party claim related to any act or omission of the Member made in reliance upon data or information transmitted by NSCC to the Member through DTCC Limit Monitoring.

*Implementation Timeframe*

Following regulatory approval, NSCC would implement the changes set forth in this filing on a date no earlier than ten (10) days following notice to Members through issuance of an NSCC Important Notice.

*Proposed Rule Changes*

NSCC proposes to create a new Rule 54 (DTCC Limit Monitoring) and Procedure XVII (DTCC Limit Monitoring) to reflect the proposed rule changes described above. The proposed rule change would also amend Rule 58 (Limitations of Liability) to reflect the limitation of liability provision described above. In addition, Rule 1 (Definitions) would be updated to include definitions for “LM Trade Date Data,” “LM Member-provided Data,” and “LM Transaction Data.”

2. Statutory Basis

The proposed DTCC Limit Monitoring will facilitate the prompt and accurate clearance and settlement of securities transactions by providing NSCC’s Members with a mechanism to monitor post-trade activity on an intra-day basis and thereby allow for

enhanced risk management by those Members. Therefore, NSCC believes the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC, in particular Section 17A(b)(3)(F) of the Act,<sup>6</sup> which requires that NSCC's Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and, in general, to protect investors and the public interest.

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

As stated above, the proposed DTCC Limit Monitoring would provide Members with a mechanism with which to monitor post-trade activity on an intra-day basis and, thereby, allow for enhanced risk management by those Members. NSCC believes that the effectiveness of DTCC Limit Monitoring in addressing risk depends on its use by NSCC Members, particularly those Members that clear for other firms, and depends on their inclusion of the tool within their broader risk management strategies.

Approximately 85% of NSCC's Members would be required to use DTCC Limit Monitoring under the proposed rule change. NSCC Members would incur minimal, if any, cost in implementing DTCC Limit Monitoring. Therefore, NSCC does not believe that the proposed rule change would impose any burden on competition.

Furthermore, because NSCC believes that any impact DTCC Limit Monitoring has in addressing risk would facilitate the prompt and accurate clearance and settlement of securities transactions and protect investors and the public interest, in furtherance of the requirements of the Act applicable to NSCC, any burden on competition the proposed rule change is perceived as imposing would be both necessary and appropriate in

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<sup>6</sup> 15 U.S.C. 78q-1(b)(3)(F).

furtherance of the purposes of the Act, in particular Section 17A(b)(3)(F) of the Act, cited above.

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

Written comments relating to the proposed rule change have not yet been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

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 a 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-2013-12 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NSCC-2013-12. 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

(<http://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 am and 3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of NSCC and on NSCC's website

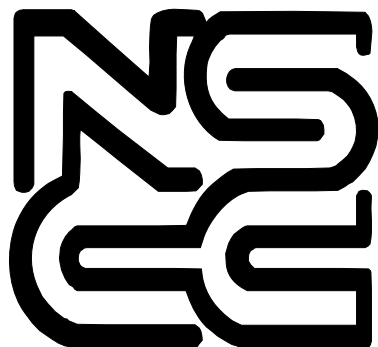
([http://dtcc.com/legal/rule\\_filings/nsc/2013.php](http://dtcc.com/legal/rule_filings/nsc/2013.php)). All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSCC-2013-12 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>7</sup>

Elizabeth M. Murphy  
Secretary

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<sup>7</sup> 17 CFR 200.30-3(a)(12).



NATIONAL  
SECURITIES  
CLEARING  
CORPORATION

RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

**Underlined and boldface** text indicates new text

**~~Strikethrough~~ and boldface** indicates deleted text

RULE 1. DEFINITIONS

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**LM Member-provided Data**

**The term “LM Member-provided Data” has the meaning specified in Rule 54.**

**LM Trade Date Data**

**The term “LM Trade Date Data” has the meaning specified in Rule 54.**

**LM Transaction Data**

**The term “LM Transaction Data” has the meaning specified in Rule 54.**

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## **RULE 54. DTCC LIMIT MONITORING RISK MANAGEMENT TOOL**

### **SEC. 1. General**

NSCC may provide its Members with a risk management tool called DTCC Limit Monitoring that will enable Members to monitor trading activity on an intraday basis of their organizations and/or their correspondent firms through review of post-trade data. DTCC Limit Monitoring will be available to all NSCC Members. Members required to register for DTCC Limit Monitoring include: (1) any NSCC full service Member that clears trades for others; (2) any NSCC full service Member that submits transactions to NSCC's trade capture system either as a Qualified Special Representative (QSR) or Special Representative, pursuant to Procedure IV (Special Representative Service); and (3) any NSCC full service Member that has established a 9A/9B relationship in order to allow another NSCC Member (either a QSR or Special Representative) to submit locked in trade data on its behalf.

DTCC Limit Monitoring will provide NSCC Members with: (i) post-trade data relating to unsettled equity and debt securities trades for a given day that have been compared or recorded through the Corporation's trade capture mechanisms on that day ("LM Trade Date Data"), and (ii) other information as provided in this Rule and the DTCC Limit Monitoring Procedure. The trade capture mechanisms utilized in the production of LM Trade Date Data shall be as determined by the Corporation from time to time.

A Member is able to access LM Trade Date Data and other information through DTCC Limit Monitoring only with respect to its own account(s) at the Corporation. Through the utilization of filtering criteria known as "Risk Entities", a Member can define activity it seeks to monitor through the risk management tool, including that of its correspondents, or other entities or groups for which LM Trade Date Data is processed through the Members' account, including relating to subgroups within its own business.<sup>1</sup>

Members using the tool will have the ability to input or load start of day and/or intra-day position data representing open activity from prior days into DTCC Limit Monitoring on their own ("LM Member-provided Data") (LM Trade Date Data and LM Member-provided Data shall collectively be referred to as "LM Transaction Data"). Through its definition of Risk Entities, and as otherwise provided in the Procedures, a Member may create rules for the aggregation of LM Transaction

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<sup>1</sup> The Corporation does not distinguish a Member's overall activity from that of the Member's customers or other groups. Therefore, a Member's ability to receive LM Trade Date Data organized by Risk Entity is entirely dependent upon the Member's provision of defining criteria in accordance with this Rule and the DTCC Limit Monitoring Procedure.

Data, set parameters for the monitoring of each Risk Entities' activity in relation to LM Transaction Data, and receive alerts for the display of parameter brakes relating to the LM Transaction Data. These functions, and the responsibilities of the Corporation and Members with respect to DTCC Limit Monitoring are further described in the DTCC Limit Monitoring Procedure (Procedure XVII).

## SEC. 2. No Impact on Trade Guaranty and Other Provisions

Neither reports nor data supplied to Members through DTCC Limit Monitoring, nor the timing of their distribution, will impact the timing, status, or effectiveness of a trade guaranty, or lack thereof, of any transaction in CNS Securities or Balance Order Securities. Furthermore, the provision of information or data to Members, or lack thereof, through DTCC Limit Monitoring will not be deemed to indicate or have any bearing on the status of any transaction, including, but not limited to, as compared, locked-in, validated, guaranteed, or not guaranteed. Any Member that registers for DTCC Limit Monitoring shall indemnify the Corporation, and any of its employees, officers, directors, shareholders, agents, and participants who may sustain any loss, liability, or expense as a result of any act or omission by the Member made in reliance upon data or information furnished through DTCC Limit Monitoring to the Member (whether derived from LM Trade Date Data, LM Member-provided Data, or LM Transaction Data).

## RULE 58. LIMITATIONS ON LIABILITY

SEC. 1. Notwithstanding any affiliation between the Corporation and any other entity, including another clearing agency, except as otherwise expressly provided by written agreement between the Corporation and such other entity:

(a) the Corporation shall not be liable for any obligations of such other entity nor shall the Clearing Fund or other assets of the Corporation be available to such other entity (or any person claiming through such other entity) for any purpose, and no Member shall assert against the Corporation any claim based upon any obligations of any other entity to such Member; and

(b) such other entity shall not be liable for any obligations of the Corporation, nor shall the Participants Fund or any other assets of such other entity be available to the Corporation (or any person claiming through the Corporation) for any purpose, and no Member shall assert against such other entity any claim based upon any obligations of the Corporation to such Member.

SEC. 2. Notwithstanding any other provision in the Rules:

(a) The Corporation will not be liable for any action taken, or any delay or failure to take any action, hereunder or otherwise to fulfill the Corporation's obligations to its Members, Mutual Fund/Insurance Services Members, Settling Bank Only Members, Municipal Comparison Only Members, Insurance Carrier/Retirement Services Members, Investment Manager/Agent Members, TPP Members, TPA Members, Mutual Fund/Insurance Services Members, Commission Billing Members, Fund Members, Data Services Only Members, AIP Members and AIP Settling Bank Only Members (each hereinafter referred to as a "participant" for purposes of this Rule 58), other than for losses caused directly by the Corporation's gross negligence, willful misconduct, or violation of Federal securities laws for which there is a private right of action. Under no circumstances will the Corporation be liable for the acts, delays, omissions, bankruptcy, or insolvency, of any third party, including, without limitation, any depository, custodian, sub-custodian, clearing or settlement system, transfer agent, registrar, data communication service or delivery service ("Third Party"), unless the Corporation was grossly negligent, engaged in willful misconduct, or in violation of Federal securities laws for which there is a private right of action in selecting such Third Party.

(b) Under no circumstances will the Corporation be liable for any indirect, consequential, incidental, special, punitive or exemplary loss or damage (including, but not limited to, loss of business, loss of profits, trading losses, loss of opportunity and loss of use) howsoever suffered or incurred, regardless of whether the Corporation has been advised of the possibility of such damages or whether such damages otherwise could have been foreseen or prevented.

(c) With respect to instructions given to the Corporation by a Special Representative/Index Recipient Agent, the Corporation shall have no responsibility or liability for any errors which may occur in the course of transmissions or recording of

any transmissions or which may exist in any magnetic tape, document or other media so delivered to the Corporation.

(d) With respect to the Corporation's distribution facilities, the Corporation assumes no responsibility whatever for the form or content of any tickets, checks, papers, documents or other material (other than items prepared by it) placed in the boxes in its distribution facilities assigned to each participant, or AIP Member, or otherwise handled by the Corporation; nor does the Corporation assume any responsibility for any improper or unauthorized removal from such boxes or from the Corporation's facilities of any such tickets, checks, papers, documents or other material, including items prepared by the Corporation.

(e) With respect to Fund/Serv transactions, the Corporation will not be responsible for the completeness or accuracy of any transaction or instruction received from or transmitted to a participant through Fund/Serv, nor for any errors, omissions or delays which may occur in the transmission of a transaction or instruction to or from a participant.

(f) The Corporation will not be responsible for the completeness or accuracy of any IPS Data received from or transmitted to a participant through IPS nor for any errors, omissions or delays which may occur in the transmission of such IPS Data to or from a participant.

(g) The Corporation will not be responsible for the completeness or accuracy of any AIT Data received from or transmitted to a Member through the AIT service, nor for any errors, omissions or delays which may occur in the transmission of such AIT Data to or from a Member.

(h) The Corporation will not be responsible for the completeness or accuracy of any AIPData received from or transmitted to an AIP Member through the Corporation nor for any errors, omissions or delays which may occur in the transmission of such AIP Data to or from an AIP Member.

**(i) The Corporation will not be responsible 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, nor for any errors, omissions or delays which may occur in the transmission of such data or information.**

## **PROCEDURE XVII. DTCC LIMIT MONITORING PROCEDURE**

### **A. Introduction**

**DTCC Limit Monitoring is a risk management tool available to Members as provided in Rule 54 and this Procedure.**

**Members required to register for DTCC Limit Monitoring include: (1) any NSCC full service Member that clears trades for others; (2) any NSCC full service Member that submits transactions to NSCC's trade capture system either as a Qualified Special Representative (QSR) or Special Representative, pursuant to Procedure IV (Special Representative Service); and (3) any NSCC full service Member that has established a 9A/9B relationship in order to allow another NSCC Member (either a QSR or Special Representative) to submit locked in trade data on its behalf.**

**Members registered for DTCC Limit Monitoring will be required to create Risk Entities (as defined in Rule 54 and more fully described below) and other parameters which: (i) define the rules for the aggregation of trade data, (ii) set parameters for the monitoring of each Risk Entities' activity in relation to such data, and (ii) trigger alerts to Members of parameter breaks.**

### **B. DTCC Limit Monitoring Processing**

#### **1. Data Capture and Member Input**

##### **a. Data Capture**

**On each trade date, the Corporation may, within timeframes it may establish from time to time, populate DTCC Limit Monitoring with LM Trade Date Data which has been compared or recorded through trade capture mechanisms as it determines from time to time.<sup>2</sup>**

##### **b. Member Input**

**Members may, in their sole discretion, input or load LM Member-provided Data to DTCC Limit Monitoring. Such data shall be submitted by Members within such timeframes as determined by the Corporation from time to time and in format(s) deemed acceptable by the Corporation.**

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<sup>2</sup> Such mechanisms initially will include all new settling trades including trades compared and/or recorded by the Real-Time Trade Matching service and the Universal Trade Capture system. Transaction details submitted to the Obligation Warehouse will not be forwarded to DTCC Limit Monitoring.

## 2. Establishing Risk Entities

Within timeframes as permitted by the Corporation from time to time, Members that are registered for DTCC Limit Monitoring shall establish Risk Entities. Members shall define Risk Entities utilizing strings of data elements (referred to as “trade arrays”) according to categories established for this purpose by the Corporation from time to time. Members may utilize multiple trade arrays in the definition of a single Risk Entity. Examples of data elements that a Member may select to be included in a trade array are clearing broker account number (i.e., the Member’s own main account or sub-account number(s)), executing broker symbol, market, and other identifying details as the Corporation may permit.

## 3. Processing

LM Transaction Data for each Member shall be aggregated and sorted by the Corporation by Risk Entity and made available to that Member at the Member’s own convenience. Intraday allocations in the settlement system will not be taken into consideration as they are not effective until the Effective Time (as defined in Rule 12). LM Transaction Data may include values on a net notional basis, and as calculated on other bases as determined by the Corporation from time to time. LM Trade Date Data shall be carried at contract amount unless the Corporation otherwise has added a pricing methodology for the relevant security, and LM Member-provided Data shall include pricing as provided by the applicable Member.

## 4. Parameter Breach Warnings

Members registered for DTCC Limit Monitoring will be required to designate parameters to associate with each Risk Entity from certain parameter types that are established or permitted by the Corporation from time to time. DTCC Limit Monitoring will then set “early warning” limits at 50%, 75%, and 90% of the parameters set by Members for each Risk Entity.

Members shall review reports and alerts on an on-going basis and, as necessary, modify established parameters to reflect current trading activities within each of their Risk Entities. While Members will ultimately be responsible for ensuring that the parameters set on trading activity are appropriate, NSCC staff may, in its sole discretion, review trade activity reports and alerts, and may contact Members to discuss any concerns if, for example, the parameters set are not aligned with recent average trading activity.

The Corporation will maintain totals of the relevant information which it will compare to the designated parameters. The identification of an early warning or parameter breach will trigger an alert by the Corporation to the Member. An alert shall be issued within such timeframe as the Corporation deems reasonable and necessary for it to process, validate, and report the relevant data or information.

#### 5. End of Day and Monthly Reporting

The Corporation may provide Members end of day and monthly reports which include Members' current Risk Entity definitions, alert history, and other data or information as the Corporation determines to make available from time to time.

#### 6. Contacts for DTCC Limit Monitoring

Members will be required to identify primary and secondary contacts within their firm for DTCC Limit Monitoring.