

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 12	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2014 - * 802 Amendment No. (req. for Amendments *) 1
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Filing by National Securities Clearing Corporation  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input type="checkbox"/>	Amendment * <input checked="" type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<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) * <input checked="" type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
	Section 3C(b)(2) * <input type="checkbox"/>

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

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

**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 05/06/2014  
 By Nikki Poulos  
 (Name \*)

Managing Director

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 - 1398177138289,

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF 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 \***

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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 \***

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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, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

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

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Exhibit Sent As Paper Document

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**

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Exhibit Sent As Paper Document

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 Advance Notice**

(a) This filing constitutes Amendment No. 1 (“Amendment”) to advance notice SR-NSCC-2014-802 (“Advance Notice”) previously filed by National Securities Clearing Corporation (“NSCC”) in connection with a proposed adjustment to NSCC’s existing parametric Value-at-Risk (“VaR”) margining model. The Amendment to the Advance Notice is described below.

(b) Not applicable.

(c) Not applicable.

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

(a) No change from the original Advance Notice.

**3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Advance Notice**

(a) As described in the Advance Notice, NSCC is proposing to enhance its existing parametric VaR model by supplementing the assumption of normal distribution underlying the current model with a family of Student’s t-distributions.

NSCC has reviewed prevalent academic research and data analyses which show that the empirical distributions of securities portfolio returns in the equities markets have “fatter tails” than what the normal distribution implies, and VaR margin computed based only on the normality assumption may underestimate the tail risk that is observed during market volatility (“fat-tail” risk). The proposed enhancement would utilize NSCC’s existing parametric VaR model, and would supplement the normal distribution underlying the model with a factor that utilizes the degrees of freedom (“DOF”) derived from a family of Student’s t-distributions. The factor will help adjust the normal-based VaR model to better reflect the distribution of actual observed historical returns.

While NSCC previously proposed in the Advance Notice to use the existing normal distribution in the parametric VaR model to operate as a floor to the proposed adjustments, with this Amendment NSCC proposes to amend this proposal to no longer utilize the existing normal distribution in the parametric VaR model as a floor but to instead set a lower bound on the DOF. NSCC believes that this Amendment to the proposal preserves the intent of the original model design proposed, while being more conservative by ensuring that the margin collected during volatile market conditions is greater than the amount of margin computed under the existing methodology.

The remainder of the proposal, as described in the Advance Notice, is unchanged.

(b) This Amendment to the Advance Notice is being filed pursuant to Section 806(e)(1) of Title VIII of the Clearing Supervision Act, and is consistent with Rule 17Ad-22(b)(2), promulgated thereunder, which requires a registered clearing agency to “use margin requirements to limit its credit exposures to participants under normal

market conditions and use risk-based models and parameters to set margin requirements.”<sup>1</sup> Specifically, the proposed adjustment, as amended, is expected to allow NSCC’s parametric VaR model to remain above its 99% coverage target during market volatility, and to more appropriately calculate and collect margin, which better enables NSCC to respond in the event that a Member defaults and minimizes potential losses to NSCC and its non-defaulting Members. As such, NSCC believes that the proposal, as amended, would promote robust risk management and the safety and soundness of NSCC’s operations, which reduce systemic risk and support the stability of the broader financial system, consistent with the requirements of Rule 17Ad-22(b)(2), cited above.

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

Not applicable.

**5. Self-Regulatory Organization’s Statement on Comments on the Advance Notice Received from Members, Members, or Others**

NSCC has not received written comments relating to the Advance Notice or this Amendment. NSCC will notify the Commission of any written comments received by NSCC.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

*Description of Amendment to Proposed Change*

As noted in Item 3 above, while NSCC previously proposed in the Advance Notice to use the existing normal distribution in the parametric VaR model to operate as a

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<sup>1</sup> 17 CFR 240.17Ad-22(b)(2).

floor to the proposed adjustments, with this Amendment NSCC proposes to amend this proposal to no longer utilize the existing normal distribution in the parametric VaR model as a floor but to instead set a lower bound on the DOF. NSCC believes that this Amendment to the proposal preserves the intent of the original model design proposed, while being more conservative by ensuring that the margin collected during volatile market conditions is greater than the amount of margin computed under the existing methodology.

*Anticipated Effect on and Management of Risks*

NSCC believes that the proposed enhancement to its current parametric VaR model, as amended hereby, would improve NSCC's risk management by enabling the model to remain above its 99% coverage target during market volatility, and to more appropriately calculate and collect margin, which better enables NSCC to respond in the event that a Member defaults. Further, while NSCC has conducted extended outreach with its Members regarding the potential impact of the proposed change, it has determined that the proposal as amended would not materially change the results of its impact analyses.

The remainder of the proposal, as described in the Advance Notice, is unchanged.

**11. Exhibits**

Exhibit 1 – Not applicable

Exhibit 1A – Notice of Amendment to Advance Notice for publication in the Federal Register

Exhibit 2 – Not applicable

Exhibit 3 – Not applicable

Exhibit 4 – Not applicable

Exhibit 5 – Not applicable

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-NSCC-2014-802

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing Amendment No 1 to Advance Notice to Enhance NSCC's Existing Parametric Value-at-Risk Margining Model

On March 28, 2014, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the advance notice SR-NSCC-2014-802 ("Advance Notice") pursuant to Section 806(e)(1) of the Payment, Clearing, and Settlement Supervision Act of 2010 ("Clearing Supervision Act")<sup>1</sup> and Rule 19b-4(n)(1)(i)<sup>2</sup> thereunder. The Advance Notice was published for comment in the Federal Register on April 15, 2014.<sup>3</sup> Pursuant to Section 806(e)(1) of the Clearing Supervision Act<sup>4</sup> and Rule 19b-4(n)(1)(i) thereunder,<sup>5</sup> notice is hereby given that on May \_\_, 2014, NSCC filed with the Commission an Amendment No. 1 to the Advance Notice 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 Advance Notice from interested persons.

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<sup>1</sup> 12 U.S.C. 5465(e)(1).

<sup>2</sup> 17 CFR 240.19b-4(n)(1)(i).

<sup>3</sup> Release No. 34-71945 (Apr. 15, 2014), 79 FR 22174 (Apr. 21, 2014).

<sup>4</sup> 12 U.S.C. 5465(e)(1).

<sup>5</sup> 17 CFR 240.19b-4(n)(1)(i).

I. Clearing Agency's Statement of the Terms of Substance of the Advance Notice

The Advance Notice, as modified by Amendment No. 1, is filed by NSCC in connection with a proposed adjustment to NSCC's existing parametric Value-at-Risk ("VaR") margining model, as more fully described below.

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Advance Notice

In its filing with the Commission, NSCC included statements concerning the purpose of and basis for the Advance Notice, as modified by Amendment No. 1, and discussed any comments it received on the Advance Notice, as amended. 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 Advance Notice

1. Purpose

As described in the Advance Notice, NSCC is proposing to enhance its existing parametric VaR model by supplementing the assumption of normal distribution underlying the current model with a family of Student's t-distributions.

NSCC has reviewed prevalent academic research and data analyses which show that the empirical distributions of securities portfolio returns in the equities markets have "fatter tails" than what the normal distribution implies, and VaR margin computed based only on the normality assumption may underestimate the tail risk that is observed during market volatility ("fat-tail" risk). The proposed enhancement would utilize NSCC's

existing parametric VaR model, and would supplement the normal distribution underlying the model with a factor that utilizes the degrees of freedom (“DOF”) derived from a family of Student’s t-distributions. The factor will help adjust the normal-based VaR model to better reflect the distribution of actual observed historical returns.

While NSCC previously proposed in the Advance Notice to use the existing normal distribution in the parametric VaR model to operate as a floor to the proposed adjustments, with this Amendment NSCC proposes to amend this proposal to no longer utilize the existing normal distribution in the parametric VaR model as a floor but to instead set a lower bound on the DOF. NSCC believes that this Amendment to the proposal preserves the intent of the original model design proposed, while being more conservative by ensuring that the margin collected during volatile market conditions is greater than the amount of margin computed under the existing methodology.

The remainder of the proposal, as described in the Advance Notice, is unchanged.

2. Statutory Basis

This Amendment to the Advance Notice is being filed pursuant to Section 806(e)(1) of Title VIII of the Clearing Supervision Act, and is consistent with Rule 17Ad-22(b)(2), promulgated thereunder, which requires a registered clearing agency to “use margin requirements to limit its credit exposures to participants under normal market conditions and use risk-based models and parameters to set margin requirements.” Specifically, the proposed adjustment, as amended, is expected to allow NSCC’s parametric VaR model to remain above its 99% coverage target during market volatility, and to more appropriately calculate and collect margin, which better enables NSCC to respond in the event that a Member defaults and minimizes potential losses to NSCC and



its non-defaulting Members. As such, NSCC believes that the proposal, as amended, would promote robust risk management and the safety and soundness of NSCC's operations, which reduce systemic risk and support the stability of the broader financial system, consistent with the requirements of Rule 17Ad-22(b)(2), cited above.

(B) Clearing Agency's Statement on Comments on the Advance Notice Received from Members, Participants, or Others

NSCC has not received written comments relating to the Advance Notice or this Amendment. NSCC will notify the Commission of any written comments received by NSCC.

(C) Advance Notice Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Description of Amendment to Proposed Change

As noted in Item 3 above, while NSCC previously proposed in the Advance Notice to use the existing normal distribution in the parametric VaR model to operate as a floor to the proposed adjustments, with this Amendment NSCC proposes to amend this proposal to no longer utilize the existing normal distribution in the parametric VaR model as a floor but to instead set a lower bound on the DOF. NSCC believes that this Amendment to the proposal preserves the intent of the original model design proposed, while being more conservative by ensuring that the margin collected during volatile market conditions is greater than the amount of margin computed under the existing methodology.

Anticipated Effect on and Management of Risks

NSCC believes that the proposed enhancement to its current parametric VaR model, as amended hereby, would improve NSCC's risk management by enabling the model to remain above its 99% coverage target during market volatility, and to more appropriately calculate and collect margin, which better enables NSCC to respond in the event that a Member defaults. Further, while NSCC has conducted extended outreach with its Members regarding the potential impact of the proposed change, it has determined that the proposal as amended would not materially change the results of its impact analyses.

The remainder of the proposal, as described in the Advance Notice, is unchanged.

III. Date of Effectiveness of the Advance Notice, and Timing for Commission Action

The proposed change may be implemented if the Commission does not object to the proposed change within 60 days of the later of (i) the date that the proposed change was filed with the Commission or (ii) the date that any additional information requested by the Commission is received. NSCC shall not implement the proposed change if the Commission has any objection to the proposed change.

The Commission may extend the period for review by an additional 60 days if the proposed change raises novel or complex issues, subject to the Commission or the Board of Governors of the Federal Reserve System providing NSCC with prompt written notice of the extension. A proposed change may be implemented in less than 60 days from the date the Advance Notice is filed, or the date further information requested by the Commission is received, if the Commission notifies NSCC in writing that it does not object to the proposed change and authorizes NSCC to implement the

proposed change on an earlier date, subject to any conditions imposed by the Commission.

NSCC shall post notice on its website of proposed changes that are implemented.

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](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2014-802 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-2014-802. 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://www.dtcc.com>). 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-2014-802 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>6</sup>

Elizabeth M. Murphy  
Secretary

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<sup>6</sup> 17 CFR 200.30-3(a)(12).