

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 45	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2021 - * 011	Amendment No. (req. for Amendments *)
Filing by National Securities Clearing Corporation Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" 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 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"/>			
Description				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
<input type="text" value="Remove ID Net Transactions from the Required Fund Deposit Calculations and Make Other Changes to the Rules"/>				
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 * <input type="text" value=""/>	Last Name * <input type="text" value=""/>			
Title * <input type="text" value=""/>				
E-mail * <input type="text" value="RuleFilingAdmin@dtcc.com"/>				
Telephone * <input type="text" value=""/>	Fax <input type="text" value=""/>			
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 <input type="text" value="07/27/2021"/>	<input type="text" value=""/>			
By <input type="text" value=""/>	<input type="text" value=""/>			
(Name *)				
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.				

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 Proposed Rule Change

(a) The proposed rule change of National Securities Clearing Corporation (“NSCC”) is annexed hereto as Exhibit 5 and consists of modifications to NSCC’s Rules & Procedures (“Rules”) to (1) remove transactions processed through the ID Net Service from the calculation of Members’ Required Fund Deposits to the Clearing Fund; (2) provide greater transparency regarding the status of the ID Net Service as a non-guaranteed service and how transactions processed through the ID Net Service are handled following a Member default; and (3) make other changes to the Rules to implement these proposed changes, as described in greater detail below.¹

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposals were approved by the Risk Committee of the Board of Directors on September 15, 2020.

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

(a) Purpose

NSCC is proposing to revise its margining methodology to remove institutional delivery (“ID”) transactions that are processed through the ID Net Service from the calculation of Members’ Required Deposits to the Clearing Fund, as described in greater detail below.² While ID transactions processed through the ID Net Service (“ID Net Transactions”) are netted with transactions that have been processed through NSCC’s continuous net settlement (“CNS”) system, these transactions are not subject to NSCC’s trade guarantee.³ Therefore, the proposed change would improve NSCC’s ability to collect Required Fund Deposits from its Members that more accurately reflect the positions that it may be required to complete in the event of a Member default.

¹ Capitalized terms not defined herein are defined in the Rules, available at http://dtcc.com/~/_/media/Files/Downloads/legal/rules/nscc_rules.pdf.

² See Rule 65 (ID Net Service) and Procedure XVI (ID Net Service) of the Rules, supra note 1.

³ Transactions processed through the ID Net Service have never been subject to NSCC’s trade guarantee. This service was implemented only to provide Members with the operational benefit of netting these transactions with their CNS obligations, as described in greater detail below.

NSCC is also proposing to amend the Rules to provide greater transparency regarding the status of the ID Net Service as a non-guaranteed service and how ID Net Transactions are handled following a Member default. Finally, NSCC is proposing to make other changes to the Rules to implement these proposed changes.

Overview of ID Transactions and the ID Net Service

The parties involved in an ID transaction include the institutional investor (such as mutual funds, insurance companies, hedge funds, bank trust departments and pension funds), the investment manager (who enters trade orders on behalf of institutional investors), the buying broker and the selling broker, and custodian banks. After execution, the trade allocation details of ID transactions are matched between the executing broker and the investment manager or institutional investor's custodian bank. After an executing broker has provided a final notice of execution, most investment managers will provide client trade allocation details to the executing broker using a service provided by NSCC's affiliate, Institutional Trade Processing ("ITP").

When the executing broker accepts and processes the trade allocations, an electronic confirmation is provided through ITP's TradeSuite ID™ service to the investment manager or the institutional investor's custodian bank for affirmation.⁴ ITP links with the various parties to institutional trades to provide real-time central matching electronically comparing trade details and notifying parties of any exceptions.⁵ After the trade allocation details are affirmed, the institutional delivery details are sent to The Depository Trust Company ("DTC") where the trade is settled. NSCC risk management receives a daily feed from ITP that includes both ID transactions that have only been confirmed as well as those that have also been affirmed. Some eligible ID transactions may be processed through NSCC's CNS Accounting Operation or Balance Order Accounting Operation, as applicable, for clearance and settlement with the buying broker and selling broker as counterparties.⁶

Alternatively, Members may subscribe for the ID Net Service and direct ID transactions to be submitted to NSCC and DTC pursuant to this service. The ID Net Service is a joint service of NSCC and DTC that allows the executing brokers that are subscribers to the service to net affirmed eligible ID transactions that are held at DTC with transactions have been processed through CNS. ID Net Transactions net with CNS obligations to create efficiencies in settlement but these transactions are not processed through CNS. The ID Net Service accepts affirmed transactions in Eligible ID Net Securities (as defined in Rule 65 (ID Net Service) of the Rules) and nets the broker-dealer side of such transactions with the broker-dealer's CNS obligations.⁷

⁴ For more information regarding this service, see <https://www.dtcc.com/institutional-trade-processing/itp/tradesuite-id>.

⁵ Exceptions occur when the mandatory matching fields (for example, security identifier or settlement date) do not match.

⁶ See Section B (Institutional Clearing Service) of Procedure IV (Special Representative Service) of the Rules, supra note 1.

⁷ See supra note 2.

Most equity securities that are eligible for processing through CNS are Eligible ID Net Securities.

Participation in the ID Net Service is voluntary. Eligibility for the ID Net Service requires that the broker-dealer in the ID transaction be an NSCC Member and a participant of DTC. The custodian bank in the ID transaction must be a DTC participant. In addition, eligibility for ID Net Service processing is based on the underlying security being processed, the type of transaction submitted for processing, and the timing of affirmation. As described in Procedure XVI of the Rules, ID Net Transactions that are not completed by the cut-off time established by NSCC (currently 11:30 AM EST) on settlement day are exited from NSCC's systems and must be settled on a trade-for-trade basis away from NSCC.⁸

This service provides Members with the operational benefit of netting these transactions with their CNS obligations, allowing them to combine their affirmed ID transactions with other trades in CNS. As noted above, ID Net transactions are not subject to NSCC's trade guarantee.

Required Fund Deposit and Risk Management of ID Net Transactions

As part of its market risk management strategy, NSCC manages its credit exposure to Members by determining the appropriate Required Fund Deposits to the Clearing Fund and monitoring its sufficiency, as provided for in the Rules.⁹ The Required Fund Deposit serves as each Member's margin. The objective of a Member's Required Fund Deposit is to mitigate potential losses to NSCC associated with liquidating a Member's portfolio in the event NSCC ceases to act for that Member (hereinafter referred to as a "default").¹⁰ The aggregate of all Members' Required Fund Deposits constitutes the Clearing Fund of NSCC. NSCC would access its Clearing Fund should a defaulting Member's own Required Fund Deposit be insufficient to satisfy losses to NSCC caused by the liquidation of that Member's portfolio.

Pursuant to the Rules, each Member's Required Fund Deposit amount consists of a number of applicable components, each of which is calculated to address specific risks faced by NSCC, and are described in Procedure XV of the Rules.¹¹ Because ID Net Transactions are netted with CNS transactions, these transactions are currently included in the netted positions

⁸ Supra note 1.

⁹ See Rule 4 (Clearing Fund) and Procedure XV (Clearing Fund Formula and Other Matters), supra note 1. NSCC's market risk management strategy is designed to comply with Rule 17Ad-22(e)(4) under the Securities Exchange Act of 1934 ("Act"), where these risks are referred to as "credit risks." 17 CFR 240.17Ad-22(e)(4).

¹⁰ The Rules identify when NSCC may cease to act for a Member and the types of actions NSCC may take. For example, NSCC may suspend a firm's membership with NSCC or prohibit or limit a Member's access to NSCC's services in the event that Member defaults on a financial or other obligation to NSCC. See Rule 46 (Restrictions on Access to Services) of the Rules, supra note 1.

¹¹ Supra note 1.

that are used to calculate certain components of Members' Required Fund Deposits. These components include the volatility component, the mark-to-market component, which includes both a Regular Mark-to-Market charge and an ID Net Mark-to-Market charge, the Margin Requirement Differential component ("MRD charge"), and a margin liquidity adjustment charge ("MLA charge").

The volatility component of each Member's Required Fund Deposit is designed to measure market price volatility and is calculated for Members' net of unsettled pending positions, defined as "Net Unsettled Positions."¹² Currently, Members' Net Unsettled Positions, for purposes of calculating the volatility component, include ID Net Transactions. The volatility component captures the market price risk associated with each Member's portfolio at a 99th percentile level of confidence. NSCC has two methodologies for calculating the volatility component. The volatility component applicable to most Net Unsettled Positions is calculated using a parametric Value at Risk ("VaR") model and usually comprises the largest portion of a Member's Required Fund Deposit ("VaR Charge").¹³

The mark-to-market component measures the unrealized profit or loss using the contract price versus the Current Market Price (which is the price for a security determined daily for purposes of the CNS system; generally, the prior day's closing price).¹⁴ NSCC calculates both a Regular Mark-to-Market charge and, for Members that subscribe to the ID Net Service, NSCC also calculates a separate ID Net mark-to-market component with respect to only ID Net Transactions, using the same calculation, referred to in the Rules as the ID Net Mark-to-Market charge.¹⁵ For both calculations, and only with respect to Members that use the ID Net Service, if the mark-to-market calculation results in a positive number, there is no mark-to-market charge applied.¹⁶

The MRD charge is designed to help mitigate the risks posed to NSCC by day-over-day fluctuations in a Member's portfolio by forecasting future changes in a Member's portfolio based on a 100-day historical look-back at each Member's portfolio over a given time period.¹⁷ Currently, the charge is calculated as the sum of the changes in a Member's Regular Mark-to-

¹² See Sections I(A)(1)(a) and (2)(a) of Procedure XV of the Rules, supra note 1.

¹³ As described in Procedure XV, Section I(A)(1)(a)(ii), (iii) and (iv), and Section I(A)(2)(a)(ii), (iii) and (iv) of the Rules, Net Unsettled Positions in certain securities are excluded from the VaR Charge and instead charged a volatility component that is calculated by multiplying the absolute value of those Net Unsettled Positions by a percentage. Supra note 1.

¹⁴ See Section I(A)(1)(b) of Procedure XV of the Rules, supra note 1. See also the definition of "Current Market Price" in Rule 1 (Definitions and Descriptions), id.

¹⁵ See Section I(A)(1)(c) of Procedure XV of the Rules, supra note 1.

¹⁶ See id.

¹⁷ See Section I(A)(1)(f) and (d) of Procedure XV of the Rules, supra note 1.

Market charge, ID Net Mark-to-Market charge, and volatility component over the look-back period. Finally, the MLA charge is designed to address the risk presented to NSCC when a Member's portfolio contains large Net Unsettled Positions in a particular group of securities with a similar risk profile or in a particular asset type.¹⁸ Similar to the volatility component, the MLA charge is calculated on a Member's Net Unsettled Positions, which currently includes ID Net Transactions.

Proposed Enhancement to NSCC's Margining Methodology

NSCC is proposing to enhance its margining methodology to remove ID Net Transactions from the calculation of Members' Required Fund Deposits. NSCC does not guaranty the completion of these ID Net Transactions, so, in the event of a Member default, these transactions are excluded from NSCC's operations to be settled away from NSCC. By removing ID Net Transactions from the calculation of Members' Required Fund Deposits, NSCC would be able to calculate and collect an amount that more accurately reflects the risks presented by positions it would be obligated to complete in the event of a Member default.

Including ID Net Transactions in the margin calculations presents the risk that NSCC is either under-margining or over-margining the positions of Members that use the ID Net Service.¹⁹ However, NSCC does not expect the proposed change to have a material impact on the size of its Clearing Fund. At the time of this filing, only twelve Members are subscribed to the ID Net Service, and their Required Fund Deposits are driven primarily by their CNS and Balance Order activity. For most of these Members, the inclusion of ID Net Transactions in margin calculations has an immaterial impact on these Members' Required Fund Deposits on a typical business day. In connection with its regular review of its margining methodology, NSCC has determined that it could more accurately and, therefore, more effectively measure the risks it faces following a Member default by removing these non-guaranteed positions from its margining methodology.

In order to implement this proposed change, NSCC would remove ID Net Transactions from Members' Net Unsettled Positions for purposes of calculating the volatility charge and the MLA charge. NSCC would also (1) eliminate the ID Net Mark-to-Market charge from the Required Fund Deposit calculations by removing Section I(A)(1)(c) from Procedure XV of the Rules and (2) amend Section I(A)(1)(b) of Procedure XV of the Rules to make clear that ID Net Transactions are not included in the calculation of the Regular Mark-to-Market charge. Finally, NSCC would amend Section I(A)(1)(f) (which will be renamed Section I(A)(1)(e) following implementation of the proposed changes) and Section I(A)(2)(d) of Procedure XV of the Rules,

¹⁸ See supra note 1.

¹⁹ For example, if the inclusion of ID Net Transactions in a Member's Net Unsettled Positions results in a lower margin charge (as compared to the margin charge that would have been calculated for that Member if those ID Net Transactions were excluded from its Net Unsettled Positions), NSCC could be under-margining on that Net Unsettled Position.

which describe the calculation of the MRD charge, to remove the ID Net Mark-to-Market charge from this description.

NSCC is not proposing any other changes to the calculation of these margin charges and is not proposing any changes to the operation of the ID Net Service.

Proposed Changes to Clarify the Non-Guaranteed Status of ID Net Service

NSCC is also proposing to amend Rule 65 (ID Net Service) and Rule 18 (Procedures for when the Corporation Declines or Ceases to Act) to provide greater transparency and clarity into how ID Net Transactions are processed in the event of a Member default. As stated above, the ID Net Service provides Members with the operational benefit of netting these transactions through NSCC's CNS system, allowing them to combine their affirmed ID transactions with other trades in CNS. However, ID Net Transactions are not subject to NSCC's trade guarantee and would be exited from NSCC's systems in the event of a Member default.

Currently, Rule 65 current describes the circumstances in which NSCC may remove a Member's status as an ID Net Subscriber, which include the circumstances that provide NSCC with the right to suspend, prohibit or limit a Member's access to NSCC's services under Rule 46 (Restrictions on Access to Services) of the Rules.²⁰ Additionally, Procedure XVI (ID Net Service) of the Rules describes NSCC's ability to exit ID Net Transactions from its operations.²¹ Because the ID Net Service is not a guaranteed service, NSCC would rely on these rules to exit ID Net Transactions from its operations in the event of a Member default. Specifically, if NSCC ceases to act for a Member that is an ID Net Subscriber, that firm would no longer be eligible to use the service pursuant to Rule 65, and NSCC would exit its ID Net Transactions from its operations, and those transactions would be settled on a trade-for-trade basis outside the ID Net Service.²² NSCC is proposing to amend Rules 65 and 18 of the Rules to improve the transparency of the Rules in describing this service as non-guaranteed and to provide clarity on how these transactions will be processed in the event of a Member default.

First, NSCC would include a statement in a new Section 5(c) of Rule 65 of the Rules that states the ID Net Service is not a guaranteed service, and refers to Rule 18 of the Rules to describe how ID Net Transactions would be treated if NSCC ceases to act for a Member that is an ID Net Subscriber. Second, NSCC would amend Section 2(a) of Rule 18 of the Rules to make it clear that uncompleted transactions processed through the ID Net Service in accordance

²⁰ See Section 5(b) of Rule 65 (ID Net Service) and Section 1 of Rule 46 (Restrictions on Access to Services) of the Rules, supra note 1.

²¹ See supra note 1.

²² See Securities Exchange Act Release No. 57901 (June 2, 2008), 73 FR 32373, at 32375 (June 6, 2008) (File Nos. SR-DTC-2007-14; SR-NSCC-2007-14) ("If the transaction becomes ineligible for any reason, the transaction will be exited from the ID Net Service processing and will be settled on a trade-for-trade basis between the ID Net Firm and the ID Net Bank outside of the ID Net Service at DTC.")

with Rule 65 would be excluded from NSCC's operations if NSCC ceased to act for a Member that is an ID Net Subscriber pursuant to Rule 46 of the Rules.

The proposed changes to Rules 65 and 18 of the Rules would use language that is similar to language used to describe two other non-guaranteed NSCC services – the Automated Customer Account Transfer Service (“ACATS”) and the Obligation Warehouse (“OW”) service.²³ By using parallel language in describing the nature of each of these services as non-guaranteed and how transactions processed through these services would be excluded from NSCC's operations following a Member default, the proposed changes would create consistency and clarity within the Rules, improving the Rules' transparency to Members.

Other Proposed Changes to the NSCC Rules to Implement the Proposal

NSCC is proposing additional changes to the Rules in order implement the proposed changes described above. First, NSCC would move the definitions of “Net Unsettled Positions” and “Net Balance Order Unsettled Positions” from Procedure XV (Clearing Fund Formula and Other Matters) to Rule 1 (Definitions and Descriptions) of the Rules. In moving the definition of this term, which is used for the calculation of both the volatility component and the MLA charge, to Rule 1 of the Rules, NSCC would simplify the description of the calculation of these charges. NSCC would also amend the definition of Net Unsettled Positions to implement the proposed change to remove ID Net Transactions from these positions. Other than with respect to the removal of ID Net Transactions from these positions, the meaning of the term “Net Unsettled Positions” would not change from its current meaning.

NSCC is also proposing to change the defined term “Regular Mark-to-Market” charge to the “Mark-to-Market” charge in Procedure XV of the Rules.²⁴ Following the proposed change to eliminate the ID Net Mark-to-Market charge, as described above, the Regular Mark-to-Market charge would be the only mark-to-market charge that is calculated by NSCC. Therefore, it will no longer be necessary to refer to this charge as the “Regular” mark-to-market charge.

Finally, NSCC is proposing to re-number the margin components in Section I(A)(1) of Procedure XV of the Rules to reflect the deletion of the ID Mark-to-Market charge, and to update the references to these components in the description of the Excess Capital Premium charge.²⁵

(i) Implementation Timeframe

NSCC would implement the proposed changes no later than 10 Business Days after the approval of the proposed rule change by the Securities and Exchange Commission

²³ See Rule 50 (Automated Customer Account Transfer Service) and Rule 51 (Obligation Warehouse), supra note 1.

²⁴ See Section I(A)(1)(c) of Procedure XV of the Rules, supra note 1.

²⁵ See Section I(B)(2) of Procedure XV of the Rules, supra note 1.

(“Commission”). NSCC would announce the effective date of the proposed changes by Important Notice posted to its website.

(b) Statutory Basis

NSCC believes that the proposed changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, NSCC believes the proposed changes are consistent with Section 17A(b)(3)(F) of the Act,²⁶ and Rules 17Ad-22(e)(4)(i) and (e)(6)(i), each promulgated under the Act,²⁷ for the reasons described below.

Section 17A(b)(3)(F) of the Act requires that the rules of NSCC be designed to, among other things, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.²⁸ The proposed change to remove ID Net Transactions from the calculation of the Members’ Required Fund Deposits would allow NSCC to calculate these amounts using only the positions that it may be required to complete in the event of a Member default. The proposed change would assist NSCC in calculating and collecting margin requirements that better reflect the risks it may face in liquidating a defaulted Member’s positions. The Clearing Fund is a key tool that NSCC uses to mitigate potential losses to NSCC associated with liquidating a Member’s portfolio in the event of Member default. The proposal to enhance the calculation of margin requirements by removing non-guaranteed positions would enable NSCC to better measure the risks it faces in the event of a Member default, such that NSCC’s operations would not be disrupted and non-defaulting Members would not be exposed to losses they cannot anticipate or control in such an event.

Additionally, the proposed changes to include transparency around the nature of the ID Net Service as a non-guaranteed service and clarity on how ID Net Transactions are processed following a Member default, and to update the Rules to implement the other proposed changes, would make the Rules more effective in communicating Members’ rights and obligations in connection with the use of the ID Net Service. When Members better understand their rights and obligations regarding the Rules, they are more likely to act in accordance with the Rules, which NSCC believes would promote the prompt and accurate clearance and settlement of securities transactions.

Therefore, the proposed changes are designed to assure the safeguarding of securities and funds which are in the custody or control of NSCC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.²⁹

²⁶ 15 U.S.C. 78q-1(b)(3)(F).

²⁷ 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i).

²⁸ 15 U.S.C. 78q-1(b)(3)(F).

²⁹ Id.

Rule 17Ad-22(e)(4)(i) under the Act requires, in part, that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.³⁰ As described above, the proposed change to remove ID Net Transactions from the calculation of Required Fund Deposits of Members that are ID Net Subscribers would enable NSCC to more accurately measure the risks presented by those Members' guaranteed positions. Therefore, NSCC believes the proposal would enhance NSCC's ability to effectively identify, measure, monitor and, through the collection of Required Fund Deposits, manage its credit exposures to Members by maintaining sufficient financial resources to cover its credit exposure fully with a high degree of confidence. As such, NSCC believes the proposed changes are consistent with Rule 17Ad-22(e)(4)(i) under the Act.³¹

Rule 17Ad-22(e)(6)(i) under the Act requires, in part, that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.³² The Required Fund Deposits are made up of risk-based components (as margin) that are calculated and assessed daily to limit NSCC's credit exposures to Members. NSCC's proposal to remove ID Net Transactions from the calculation of Required Fund Deposits is designed to enable NSCC to more effectively measure the risks presented by its Members' guaranteed positions and, therefore, assess a more appropriate level of margin. The proposed change is designed to assist NSCC in maintaining a risk-based margin system that considers, and produces margin levels commensurate with, the risks and particular attributes of Members' portfolios. Therefore, NSCC believes the proposed change is consistent with Rule 17Ad-22(e)(6)(i) under the Act.³³

4. Self-Regulatory Organization's Statement on Burden on Competition

NSCC believes that the proposed change to remove ID Net Transactions from the calculation of Required Fund Deposits of Members that are ID Net Subscribers could have an impact on competition. Specifically, NSCC believes the proposed change could burden competition because it may result in either larger or smaller Required Fund Deposit amounts for those Members. When the proposal results in a larger Required Fund Deposit, the proposed change could burden competition for Members that have lower operating margins or higher costs of capital compared to other Members. However, any increase or decrease in a Required Fund Deposit is not expected to be material and would be the result of a margin calculation that more accurately reflects the risks presented by each Member's guaranteed positions. As such, NSCC

³⁰ 17 CFR 240.17Ad-22(e)(4)(i).

³¹ Id.

³² 17 CFR 240.17Ad-22(e)(6)(i).

³³ Id.

believes that any burden on competition imposed by the proposed change would not be significant and, further, would be both necessary and appropriate in furtherance of NSCC's efforts to mitigate risks and meet the requirements of the Act, as described in this filing and further below.

NSCC believes the above described burden on competition that may be created by the proposed change would be necessary in furtherance of the Act, specifically Section 17A(b)(3)(F) of the Act.³⁴ As stated above, the proposal is designed to assist NSCC in better estimating and collecting margin requirements that reflect the risks it may face in liquidating a defaulted Member's guaranteed positions. Therefore, NSCC believes this proposed change is consistent with the requirements of Section 17A(b)(3)(F) of the Act, which requires that the Rules be designed to assure the safeguarding of securities and funds that are in NSCC's custody or control or which it is responsible.³⁵

NSCC believes the proposal would also support NSCC's compliance with Rules 17Ad-22(e)(4)(i) and Rule 17Ad-22(e)(6)(i) under the Act, which require NSCC to establish, implement, maintain and enforce written policies and procedures reasonably designed to (x) effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence; and (y) cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.³⁶

As described above, NSCC believes the proposal to remove ID Net Transactions from the calculation of Required Fund Deposits would enable it to more effectively measure the risks presented by its Members' guaranteed positions, and improve its ability to maintain a risk-based margin system that considers, and produces margin levels commensurate with, the risks of each Member's portfolio. Therefore, the proposed change would better limit NSCC's credit exposures to Members, consistent with the requirements of Rules 17Ad-22(e)(4)(i) and Rule 17Ad-22(e)(6)(i) under the Act.³⁷

NSCC believes that the above described burden on competition that could be created by the proposed change would be appropriate in furtherance of the Act because such change has been appropriately designed to assure the safeguarding of securities and funds which are in the custody or control of NSCC or for which it is responsible, as described in detail above. The proposal would also enable NSCC to produce margin levels more commensurate with the risks

³⁴ 15 U.S.C. 78q-1(b)(3)(F).

³⁵ Id.

³⁶ 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i).

³⁷ Id.

and particular attributes of each Member's portfolio by removing non-guaranteed positions from the calculation of Required Fund Deposits.

NSCC believes that it has designed the proposed change in an appropriate way in order to meet compliance with its obligations under the Act. Specifically, the proposal would improve the risk-based margining methodology that NSCC employs to set margin requirements and better limit NSCC's credit exposures to its Members. Therefore, as described above, NSCC believes the proposed change is necessary and appropriate in furtherance of NSCC's obligations under the Act, specifically Section 17A(b)(3)(F) of the Act³⁸ and Rules 17Ad-22(e)(4)(i) and Rule 17Ad-22(e)(6)(i) under the Act.³⁹

The proposed rule changes to increase transparency regarding the ID Net Service and to update the Rules to implement the other proposed changes would help ensure that the Rules remain clear and accurate. In addition, these changes would facilitate Members' understanding of the Rules and their obligations thereunder. These changes would not affect NSCC's operations or the rights and obligations of the membership. As such, NSCC believes these proposed rule changes would not have any impact on competition.

5. Self-Regulatory Organization'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.

³⁸ 15 U.S.C. 78q-1(b)(3)(F).

³⁹ 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i).

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 Act⁴⁰ for Commission action.

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

(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

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 of 2010

Not applicable.

11. Exhibits

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules.

⁴⁰ 15 U.S.C. 78s(b)(2).

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-NSCC-2021-011)

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change to Remove ID Net Transactions from the Required Fund Deposit Calculations and Make Other Changes to the Rules

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 July __, 2021, 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 modifications to NSCC’s Rules & Procedures (“Rules”) to (1) remove transactions processed through the ID Net Service from the calculation of Members’ Required Fund Deposits to the Clearing Fund; (2) provide greater transparency regarding the status of the ID Net Service as a non-guaranteed service and how transactions processed through the ID Net Service are handled following a Member default; and (3) make other changes to the Rules to implement these proposed changes, as described in greater detail below.³

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Capitalized terms not defined herein are defined in the Rules, available at http://dtcc.com/~/.media/Files/Downloads/legal/rules/nscc_rules.pdf.

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 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

NSCC is proposing to revise its margining methodology to remove institutional delivery ("ID") transactions that are processed through the ID Net Service from the calculation of Members' Required Deposits to the Clearing Fund, as described in greater detail below.⁴ While ID transactions processed through the ID Net Service ("ID Net Transactions") are netted with transactions that have been processed through NSCC's continuous net settlement ("CNS") system, these transactions are not subject to NSCC's trade guarantee.⁵ Therefore, the proposed change would improve NSCC's ability to collect Required Fund Deposits from its Members that more accurately reflect the positions that it may be required to complete in the event of a Member default.

⁴ See Rule 65 (ID Net Service) and Procedure XVI (ID Net Service) of the Rules, supra note 3.

⁵ Transactions processed through the ID Net Service have never been subject to NSCC's trade guarantee. This service was implemented only to provide Members with the operational benefit of netting these transactions with their CNS obligations, as described in greater detail below.

NSCC is also proposing to amend the Rules to provide greater transparency regarding the status of the ID Net Service as a non-guaranteed service and how ID Net Transactions are handled following a Member default. Finally, NSCC is proposing to make other changes to the Rules to implement these proposed changes.

Overview of ID Transactions and the ID Net Service

The parties involved in an ID transaction include the institutional investor (such as mutual funds, insurance companies, hedge funds, bank trust departments and pension funds), the investment manager (who enters trade orders on behalf of institutional investors), the buying broker and the selling broker, and custodian banks. After execution, the trade allocation details of ID transactions are matched between the executing broker and the investment manager or institutional investor's custodian bank. After an executing broker has provided a final notice of execution, most investment managers will provide client trade allocation details to the executing broker using a service provided by NSCC's affiliate, Institutional Trade Processing ("ITP").

When the executing broker accepts and processes the trade allocations, an electronic confirmation is provided through ITP's TradeSuite ID™ service to the investment manager or the institutional investor's custodian bank for affirmation.⁶ ITP links with the various parties to institutional trades to provide real-time central matching electronically comparing trade details and notifying parties of any exceptions.⁷ After the trade allocation details are affirmed, the institutional delivery details are sent to The

⁶ For more information regarding this service, see <https://www.dtcc.com/institutional-trade-processing/itp/tradesuite-id>.

⁷ Exceptions occur when the mandatory matching fields (for example, security identifier or settlement date) do not match.

Depository Trust Company (“DTC”) where the trade is settled. NSCC risk management receives a daily feed from ITP that includes both ID transactions that have only been confirmed as well as those that have also been affirmed. Some eligible ID transactions may be processed through NSCC’s CNS Accounting Operation or Balance Order Accounting Operation, as applicable, for clearance and settlement with the buying broker and selling broker as counterparties.⁸

Alternatively, Members may subscribe for the ID Net Service and direct ID transactions to be submitted to NSCC and DTC pursuant to this service. The ID Net Service is a joint service of NSCC and DTC that allows the executing brokers that are subscribers to the service to net affirmed eligible ID transactions that are held at DTC with transactions have been processed through CNS. ID Net Transactions net with CNS obligations to create efficiencies in settlement but these transactions are not processed through CNS. The ID Net Service accepts affirmed transactions in Eligible ID Net Securities (as defined in Rule 65 (ID Net Service) of the Rules) and nets the broker-dealer side of such transactions with the broker-dealer’s CNS obligations.⁹ Most equity securities that are eligible for processing through CNS are Eligible ID Net Securities.

Participation in the ID Net Service is voluntary. Eligibility for the ID Net Service requires that the broker-dealer in the ID transaction be an NSCC Member and a participant of DTC. The custodian bank in the ID transaction must be a DTC participant. In addition, eligibility for ID Net Service processing is based on the underlying security

⁸ See Section B (Institutional Clearing Service) of Procedure IV (Special Representative Service) of the Rules, supra note 3.

⁹ See supra note 4.

being processed, the type of transaction submitted for processing, and the timing of affirmation. As described in Procedure XVI of the Rules, ID Net Transactions that are not completed by the cut-off time established by NSCC (currently 11:30 AM EST) on settlement day are exited from NSCC's systems and must be settled on a trade-for-trade basis away from NSCC.¹⁰

This service provides Members with the operational benefit of netting these transactions with their CNS obligations, allowing them to combine their affirmed ID transactions with other trades in CNS. As noted above, ID Net transactions are not subject to NSCC's trade guarantee.

Required Fund Deposit and Risk Management of ID Net Transactions

As part of its market risk management strategy, NSCC manages its credit exposure to Members by determining the appropriate Required Fund Deposits to the Clearing Fund and monitoring its sufficiency, as provided for in the Rules.¹¹ The Required Fund Deposit serves as each Member's margin. The objective of a Member's Required Fund Deposit is to mitigate potential losses to NSCC associated with liquidating a Member's portfolio in the event NSCC ceases to act for that Member (hereinafter referred to as a "default").¹² The aggregate of all Members' Required Fund

¹⁰ Supra note 3.

¹¹ See Rule 4 (Clearing Fund) and Procedure XV (Clearing Fund Formula and Other Matters), supra note 3. NSCC's market risk management strategy is designed to comply with Rule 17Ad-22(e)(4) under the Act, where these risks are referred to as "credit risks." 17 CFR 240.17Ad-22(e)(4).

¹² The Rules identify when NSCC may cease to act for a Member and the types of actions NSCC may take. For example, NSCC may suspend a firm's membership with NSCC or prohibit or limit a Member's access to NSCC's services in the

Deposits constitutes the Clearing Fund of NSCC. NSCC would access its Clearing Fund should a defaulting Member's own Required Fund Deposit be insufficient to satisfy losses to NSCC caused by the liquidation of that Member's portfolio.

Pursuant to the Rules, each Member's Required Fund Deposit amount consists of a number of applicable components, each of which is calculated to address specific risks faced by NSCC, and are described in Procedure XV of the Rules.¹³ Because ID Net Transactions are netted with CNS transactions, these transactions are currently included in the netted positions that are used to calculate certain components of Members' Required Fund Deposits. These components include the volatility component, the mark-to-market component, which includes both a Regular Mark-to-Market charge and an ID Net Mark-to-Market charge, the Margin Requirement Differential component ("MRD charge"), and a margin liquidity adjustment charge ("MLA charge").

The volatility component of each Member's Required Fund Deposit is designed to measure market price volatility and is calculated for Members' net of unsettled pending positions, defined as "Net Unsettled Positions."¹⁴ Currently, Members' Net Unsettled Positions, for purposes of calculating the volatility component, include ID Net Transactions. The volatility component captures the market price risk associated with each Member's portfolio at a 99th percentile level of confidence. NSCC has two methodologies for calculating the volatility component. The volatility component

event that Member defaults on a financial or other obligation to NSCC. See Rule 46 (Restrictions on Access to Services) of the Rules, supra note 3.

¹³ Supra note 3.

¹⁴ See Sections I(A)(1)(a) and (2)(a) of Procedure XV of the Rules, supra note 3.

applicable to most Net Unsettled Positions is calculated using a parametric Value at Risk (“VaR”) model and usually comprises the largest portion of a Member’s Required Fund Deposit (“VaR Charge”).¹⁵

The mark-to-market component measures the unrealized profit or loss using the contract price versus the Current Market Price (which is the price for a security determined daily for purposes of the CNS system; generally, the prior day’s closing price).¹⁶ NSCC calculates both a Regular Mark-to-Market charge and, for Members that subscribe to the ID Net Service, NSCC also calculates a separate ID Net mark-to-market component with respect to only ID Net Transactions, using the same calculation, referred to in the Rules as the ID Net Mark-to-Market charge.¹⁷ For both calculations, and only with respect to Members that use the ID Net Service, if the mark-to-market calculation results in a positive number, there is no mark-to-market charge applied.¹⁸

The MRD charge is designed to help mitigate the risks posed to NSCC by day-over-day fluctuations in a Member’s portfolio by forecasting future changes in a Member’s portfolio based on a 100-day historical look-back at each Member’s portfolio

¹⁵ As described in Procedure XV, Section I(A)(1)(a)(ii), (iii) and (iv), and Section I(A)(2)(a)(ii), (iii) and (iv) of the Rules, Net Unsettled Positions in certain securities are excluded from the VaR Charge and instead charged a volatility component that is calculated by multiplying the absolute value of those Net Unsettled Positions by a percentage. Supra note 3.

¹⁶ See Section I(A)(1)(b) of Procedure XV of the Rules, supra note 3. See also the definition of “Current Market Price” in Rule 1 (Definitions and Descriptions), id.

¹⁷ See Section I(A)(1)(c) of Procedure XV of the Rules, supra note 3.

¹⁸ See id.

over a given time period.¹⁹ Currently, the charge is calculated as the sum of the changes in a Member's Regular Mark-to-Market charge, ID Net Mark-to-Market charge, and volatility component over the look-back period. Finally, the MLA charge is designed to address the risk presented to NSCC when a Member's portfolio contains large Net Unsettled Positions in a particular group of securities with a similar risk profile or in a particular asset type.²⁰ Similar to the volatility component, the MLA charge is calculated on a Member's Net Unsettled Positions, which currently includes ID Net Transactions.

Proposed Enhancement to NSCC's Margining Methodology

NSCC is proposing to enhance its margining methodology to remove ID Net Transactions from the calculation of Members' Required Fund Deposits. NSCC does not guaranty the completion of these ID Net Transactions, so, in the event of a Member default, these transactions are excluded from NSCC's operations to be settled away from NSCC. By removing ID Net Transactions from the calculation of Members' Required Fund Deposits, NSCC would be able to calculate and collect an amount that more accurately reflects the risks presented by positions it would be obligated to complete in the event of a Member default.

Including ID Net Transactions in the margin calculations presents the risk that NSCC is either under-margining or over-margining the positions of Members that use the ID Net Service.²¹ However, NSCC does not expect the proposed change to have a

¹⁹ See Section I(A)(1)(f) and (d) of Procedure XV of the Rules, supra note 3.

²⁰ See supra note 3.

²¹ For example, if the inclusion of ID Net Transactions in a Member's Net Unsettled Positions results in a lower margin charge (as compared to the margin charge that would have been calculated for that Member if those ID Net Transactions were

material impact on the size of its Clearing Fund. At the time of this filing, only twelve Members are subscribed to the ID Net Service, and their Required Fund Deposits are driven primarily by their CNS and Balance Order activity. For most of these Members, the inclusion of ID Net Transactions in margin calculations has an immaterial impact on these Members' Required Fund Deposits on a typical business day. In connection with its regular review of its margining methodology, NSCC has determined that it could more accurately and, therefore, more effectively measure the risks it faces following a Member default by removing these non-guaranteed positions from its margining methodology.

In order to implement this proposed change, NSCC would remove ID Net Transactions from Members' Net Unsettled Positions for purposes of calculating the volatility charge and the MLA charge. NSCC would also (1) eliminate the ID Net Mark-to-Market charge from the Required Fund Deposit calculations by removing Section I(A)(1)(c) from Procedure XV of the Rules and (2) amend Section I(A)(1)(b) of Procedure XV of the Rules to make clear that ID Net Transactions are not included in the calculation of the Regular Mark-to-Market charge. Finally, NSCC would amend Section I(A)(1)(f) (which will be renamed Section I(A)(1)(e) following implementation of the proposed changes) and Section I(A)(2)(d) of Procedure XV of the Rules, which describe the calculation of the MRD charge, to remove the ID Net Mark-to-Market charge from this description.

NSCC is not proposing any other changes to the calculation of these margin charges and is not proposing any changes to the operation of the ID Net Service.

excluded from its Net Unsettled Positions), NSCC could be under-margining on that Net Unsettled Position.

Proposed Changes to Clarify the Non-Guaranteed Status of ID Net Service

NSCC is also proposing to amend Rule 65 (ID Net Service) and Rule 18 (Procedures for when the Corporation Declines or Ceases to Act) to provide greater transparency and clarity into how ID Net Transactions are processed in the event of a Member default. As stated above, the ID Net Service provides Members with the operational benefit of netting these transactions through NSCC's CNS system, allowing them to combine their affirmed ID transactions with other trades in CNS. However, ID Net Transactions are not subject to NSCC's trade guarantee and would be exited from NSCC's systems in the event of a Member default.

Currently, Rule 65 current describes the circumstances in which NSCC may remove a Member's status as an ID Net Subscriber, which include the circumstances that provide NSCC with the right to suspend, prohibit or limit a Member's access to NSCC's services under Rule 46 (Restrictions on Access to Services) of the Rules.²² Additionally, Procedure XVI (ID Net Service) of the Rules describes NSCC's ability to exit ID Net Transactions from its operations.²³ Because the ID Net Service is not a guaranteed service, NSCC would rely on these rules to exit ID Net Transactions from its operations in the event of a Member default. Specifically, if NSCC ceases to act for a Member that is an ID Net Subscriber, that firm would no longer be eligible to use the service pursuant to Rule 65, and NSCC would exit its ID Net Transactions from its operations, and those

²² See Section 5(b) of Rule 65 (ID Net Service) and Section 1 of Rule 46 (Restrictions on Access to Services) of the Rules, supra note 3.

²³ See supra note 3.

transactions would be settled on a trade-for-trade basis outside the ID Net Service.²⁴

NSCC is proposing to amend Rules 65 and 18 of the Rules to improve the transparency of the Rules in describing this service as non-guaranteed and to provide clarity on how these transactions will be processed in the event of a Member default.

First, NSCC would include a statement in a new Section 5(c) of Rule 65 of the Rules that states the ID Net Service is not a guaranteed service, and refers to Rule 18 of the Rules to describe how ID Net Transactions would be treated if NSCC ceases to act for a Member that is an ID Net Subscriber. Second, NSCC would amend Section 2(a) of Rule 18 of the Rules to make it clear that uncompleted transactions processed through the ID Net Service in accordance with Rule 65 would be excluded from NSCC's operations if NSCC ceased to act for a Member that is an ID Net Subscriber pursuant to Rule 46 of the Rules.

The proposed changes to Rules 65 and 18 of the Rules would use language that is similar to language used to describe two other non-guaranteed NSCC services – the Automated Customer Account Transfer Service (“ACATS”) and the Obligation Warehouse (“OW”) service.²⁵ By using parallel language in describing the nature of each of these services as non-guaranteed and how transactions processed through these services would be excluded from NSCC's operations following a Member default, the

²⁴ See Securities Exchange Act Release No. 57901 (June 2, 2008), 73 FR 32373, at 32375 (June 6, 2008) (File Nos. SR-DTC-2007-14; SR-NSCC-2007-14) (“If the transaction becomes ineligible for any reason, the transaction will be exited from the ID Net Service processing and will be settled on a trade-for-trade basis between the ID Net Firm and the ID Net Bank outside of the ID Net Service at DTC.”)

²⁵ See Rule 50 (Automated Customer Account Transfer Service) and Rule 51 (Obligation Warehouse), supra note 3.

proposed changes would create consistency and clarity within the Rules, improving the Rules' transparency to Members.

Other Proposed Changes to the NSCC Rules to Implement the Proposal

NSCC is proposing additional changes to the Rules in order implement the proposed changes described above. First, NSCC would move the definitions of “Net Unsettled Positions” and “Net Balance Order Unsettled Positions” from Procedure XV (Clearing Fund Formula and Other Matters) to Rule 1 (Definitions and Descriptions) of the Rules. In moving the definition of this term, which is used for the calculation of both the volatility component and the MLA charge, to Rule 1 of the Rules, NSCC would simplify the description of the calculation of these charges. NSCC would also amend the definition of Net Unsettled Positions to implement the proposed change to remove ID Net Transactions from these positions. Other than with respect to the removal of ID Net Transactions from these positions, the meaning of the term “Net Unsettled Positions” would not change from its current meaning.

NSCC is also proposing to change the defined term “Regular Mark-to-Market” charge to the “Mark-to-Market” charge in Procedure XV of the Rules.²⁶ Following the proposed change to eliminate the ID Net Mark-to-Market charge, as described above, the Regular Mark-to-Market charge would be the only mark-to-market charge that is calculated by NSCC. Therefore, it will no longer be necessary to refer to this charge as the “Regular” mark-to-market charge.

Finally, NSCC is proposing to re-number the margin components in Section I(A)(1) of Procedure XV of the Rules to reflect the deletion of the ID Mark-to-Market

²⁶ See Section I(A)(1)(c) of Procedure XV of the Rules, supra note 3.

charge, and to update the references to these components in the description of the Excess Capital Premium charge.²⁷

(i) *Implementation Timeframe*

NSCC would implement the proposed changes no later than 10 Business Days after the approval of the proposed rule change by the Commission. NSCC would announce the effective date of the proposed changes by Important Notice posted to its website.

2. Statutory Basis

NSCC believes that the proposed changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, NSCC believes the proposed changes are consistent with Section 17A(b)(3)(F) of the Act,²⁸ and Rules 17Ad-22(e)(4)(i) and (e)(6)(i), each promulgated under the Act,²⁹ for the reasons described below.

Section 17A(b)(3)(F) of the Act requires that the rules of NSCC be designed to, among other things, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.³⁰ The proposed change to remove ID Net Transactions from the calculation of the Members' Required Fund Deposits would allow NSCC to calculate these amounts using only the positions that it may be required to complete in the event of a Member default. The proposed

²⁷ See Section I(B)(2) of Procedure XV of the Rules, supra note 3.

²⁸ 15 U.S.C. 78q-1(b)(3)(F).

²⁹ 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i).

³⁰ 15 U.S.C. 78q-1(b)(3)(F).

change would assist NSCC in calculating and collecting margin requirements that better reflect the risks it may face in liquidating a defaulted Member's positions. The Clearing Fund is a key tool that NSCC uses to mitigate potential losses to NSCC associated with liquidating a Member's portfolio in the event of Member default. The proposal to enhance the calculation of margin requirements by removing non-guaranteed positions would enable NSCC to better measure the risks it faces in the event of a Member default, such that NSCC's operations would not be disrupted and non-defaulting Members would not be exposed to losses they cannot anticipate or control in such an event.

Additionally, the proposed changes to include transparency around the nature of the ID Net Service as a non-guaranteed service and clarity on how ID Net Transactions are processed following a Member default, and to update the Rules to implement the other proposed changes, would make the Rules more effective in communicating Members' rights and obligations in connection with the use of the ID Net Service. When Members better understand their rights and obligations regarding the Rules, they are more likely to act in accordance with the Rules, which NSCC believes would promote the prompt and accurate clearance and settlement of securities transactions.

Therefore, the proposed changes are designed to assure the safeguarding of securities and funds which are in the custody or control of NSCC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.³¹

Rule 17Ad-22(e)(4)(i) under the Act requires, in part, that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants

³¹ Id.

and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.³² As described above, the proposed change to remove ID Net Transactions from the calculation of Required Fund Deposits of Members that are ID Net Subscribers would enable NSCC to more accurately measure the risks presented by those Members' guaranteed positions. Therefore, NSCC believes the proposal would enhance NSCC's ability to effectively identify, measure, monitor and, through the collection of Required Fund Deposits, manage its credit exposures to Members by maintaining sufficient financial resources to cover its credit exposure fully with a high degree of confidence. As such, NSCC believes the proposed changes are consistent with Rule 17Ad-22(e)(4)(i) under the Act.³³

Rule 17Ad-22(e)(6)(i) under the Act requires, in part, that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.³⁴ The Required Fund Deposits are made up of risk-based components (as margin) that are calculated and assessed daily to limit NSCC's credit exposures to Members. NSCC's proposal to remove ID Net Transactions from the calculation of Required Fund Deposits is designed

³² 17 CFR 240.17Ad-22(e)(4)(i).

³³ Id.

³⁴ 17 CFR 240.17Ad-22(e)(6)(i).

to enable NSCC to more effectively measure the risks presented by its Members' guaranteed positions and, therefore, assess a more appropriate level of margin. The proposed change is designed to assist NSCC in maintaining a risk-based margin system that considers, and produces margin levels commensurate with, the risks and particular attributes of Members' portfolios. Therefore, NSCC believes the proposed change is consistent with Rule 17Ad-22(e)(6)(i) under the Act.³⁵

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

NSCC believes that the proposed change to remove ID Net Transactions from the calculation of Required Fund Deposits of Members that are ID Net Subscribers could have an impact on competition. Specifically, NSCC believes the proposed change could burden competition because it may result in either larger or smaller Required Fund Deposit amounts for those Members. When the proposal results in a larger Required Fund Deposit, the proposed change could burden competition for Members that have lower operating margins or higher costs of capital compared to other Members. However, any increase or decrease in a Required Fund Deposit is not expected to be material and would be the result of a margin calculation that more accurately reflects the risks presented by each Member's guaranteed positions. As such, NSCC believes that any burden on competition imposed by the proposed change would not be significant and, further, would be both necessary and appropriate in furtherance of NSCC's efforts to mitigate risks and meet the requirements of the Act, as described in this filing and further below.

³⁵ Id.

NSCC believes the above described burden on competition that may be created by the proposed change would be necessary in furtherance of the Act, specifically Section 17A(b)(3)(F) of the Act.³⁶ As stated above, the proposal is designed to assist NSCC in better estimating and collecting margin requirements that reflect the risks it may face in liquidating a defaulted Member's guaranteed positions. Therefore, NSCC believes this proposed change is consistent with the requirements of Section 17A(b)(3)(F) of the Act, which requires that the Rules be designed to assure the safeguarding of securities and funds that are in NSCC's custody or control or which it is responsible.³⁷

NSCC believes the proposal would also support NSCC's compliance with Rules 17Ad-22(e)(4)(i) and Rule 17Ad-22(e)(6)(i) under the Act, which require NSCC to establish, implement, maintain and enforce written policies and procedures reasonably designed to (x) effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence; and (y) cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.³⁸

³⁶ 15 U.S.C. 78q-1(b)(3)(F).

³⁷ Id.

³⁸ 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i).

As described above, NSCC believes the proposal to remove ID Net Transactions from the calculation of Required Fund Deposits would enable it to more effectively measure the risks presented by its Members' guaranteed positions, and improve its ability to maintain a risk-based margin system that considers, and produces margin levels commensurate with, the risks of each Member's portfolio. Therefore, the proposed change would better limit NSCC's credit exposures to Members, consistent with the requirements of Rules 17Ad-22(e)(4)(i) and Rule 17Ad-22(e)(6)(i) under the Act.³⁹ NSCC believes that the above described burden on competition that could be created by the proposed change would be appropriate in furtherance of the Act because such change has been appropriately designed to assure the safeguarding of securities and funds which are in the custody or control of NSCC or for which it is responsible, as described in detail above. The proposal would also enable NSCC to produce margin levels more commensurate with the risks and particular attributes of each Member's portfolio by removing non-guaranteed positions from the calculation of Required Fund Deposits. NSCC believes that it has designed the proposed change in an appropriate way in order to meet compliance with its obligations under the Act. Specifically, the proposal would improve the risk-based margining methodology that NSCC employs to set margin requirements and better limit NSCC's credit exposures to its Members. Therefore, as described above, NSCC believes the proposed change is necessary and appropriate in

³⁹ Id.

furtherance of NSCC's obligations under the Act, specifically Section 17A(b)(3)(F) of the Act⁴⁰ and Rules 17Ad-22(e)(4)(i) and Rule 17Ad-22(e)(6)(i) under the Act.⁴¹

The proposed rule changes to increase transparency regarding the ID Net Service and to update the Rules to implement the other proposed changes would help ensure that the Rules remain clear and accurate. In addition, these changes would facilitate Members' understanding of the Rules and their obligations thereunder. These changes would not affect NSCC's operations or the rights and obligations of the membership. As such, NSCC believes these proposed rule changes would not have any impact on competition.

(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.

⁴⁰ 15 U.S.C. 78q-1(b)(3)(F).

⁴¹ 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i).

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-2021-011 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-2021-011. 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 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 (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSCC-2021-011 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.⁴²

Secretary

⁴² 17 CFR 200.30-3(a)(12).



NATIONAL
SECURITIES
CLEARING
CORPORATION

RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

Bold and underlined text indicates proposed added language.

~~Bold and strikethrough~~ text indicates proposed deleted language.

NATIONAL SECURITIES CLEARING CORPORATION RULES

RULE 1. DEFINITIONS AND DESCRIPTIONS

Unless the context requires otherwise, the terms defined in this Rule shall, for all purposes of these Rules and Procedures, have the meanings herein specified.

* * *

Net Debit Balance

The term “Net Debit Balance” for a business day as used with respect to a Member, Mutual Fund/Insurance Services Member, Insurance Carrier/Retirement Services Member or Fund Member means the amount by which its Gross Debit Balance for such business day exceeds its Gross Credit Balance on such business day.

Net Balance Order Unsettled Position

For purposes of calculating each Member’s required contribution to the Clearing Fund pursuant to Procedure XV, the term “Net Balance Order Unsettled Position” as used in Procedure XV means a Member’s net of unsettled Regular Way, When-Issued and When-Distributed positions in Balance Order Securities that have not yet passed Settlement Date.

Net Unsettled Position

For purposes of calculating each Member’s required contribution to the Clearing Fund pursuant to Procedure XV, the term “Net Unsettled Position” as used in Procedure XV means a Member’s net of unsettled Regular Way, When-Issued and When-Distributed positions in CNS Securities that have not yet passed Settlement Date and net positions in CNS Securities that did not settle on Settlement Date. Transactions submitted through the ID Net Service are excluded from Net Unsettled Positions.

NSCC Website

The term “NSCC Website” means any URL (Uniform Resource Locator) designated by the Corporation from time to time.

* * *

RULE 18. PROCEDURES FOR WHEN THE CORPORATION
DECLINES OR CEASES TO ACT

SEC. 1. When the Corporation has declined or ceased to act for a Member, Mutual Fund/Insurance Services Member, Municipal Comparison Only Member, Insurance Carrier/Retirement Services Member, TPA Member, TPP Member, Investment Manager/Agent Member, Fund Member, Data Services Only Member or AIP Member (each hereinafter referred to as a “participant” for purposes of this Rule 18) pursuant to Rule 46, it shall provide participants with notice pursuant to the provisions of Section 3 of Rule 45.

SEC. 2. (a) Except as otherwise may be determined by the Board of Directors the following transactions of a Member for which the Corporation has declined or ceased to act shall be excluded from all operations of the Corporation applicable to such transactions:

- (i) any CNS trade which, at the time the Corporation declined or ceased to act for such Member, was not guaranteed by the Corporation pursuant to Addendum K;
- (ii) any Balance Order trade which, at the time the Corporation declined or ceased to act for such Member, was not guaranteed by the Corporation pursuant to Addendum K;
- (iii) any security orders issued in respect of Special Trades and transactions in Foreign Securities;
- (iv) any Long and Short Positions resulting from OW Obligations of the Member, in whole or in part, that were entered into the CNS Accounting Operation;
- (v) any cash adjustment relating to OW Obligations of the Member forwarded to settlement in accordance with the Obligation Warehouse procedure; **and**
- (vi) any uncompleted ACATS transaction in accordance with Rule 50; **and**
- (vii) any uncompleted transaction processed through the ID Net Service in accordance with Rule 65.**

Any transactions so excluded shall be settled between the parties and not through the Corporation.

* * *

RULE 65. ID NET SERVICE

* * *

SEC. 5. Obligations and Rights applicable to an ID Net Subscriber

(a) An ID Net Subscriber covenants to the Corporation as follows:

(i) to abide by the Rules of the Corporation applicable to an ID Net Subscriber and the use of the ID Net service, and to be bound by all the provisions thereof, and that the Corporation shall have all the rights and remedies contemplated by the applicable Rules of the Corporation;

(ii) that the applicable Rules of the Corporation shall be a part of the terms and conditions of every transaction which the ID Net Subscriber submits to the Corporation;

(iii) to pay to the Corporation such fees, charges and other amounts as may be established by the Corporation in connection with the ID Net Subscriber's use of ID Net Service or its status as an ID Net Subscriber, and to pay such fines or penalties as may be imposed in accordance with this Rule 65; and

(iv) to be bound by any amendment to the applicable Rules of the Corporation subsequent to the time such amendment takes effect as fully as though such amendment were now a part of the Rules of the Corporation, provided, however, that no such amendment shall affect its right to cease to be an ID Net Subscriber unless before such amendment becomes effective, it is given an opportunity to give written notice to the Corporation of its election to cease to be an ID Net Subscriber.

(b) The Corporation may determine to remove a Member's status as an ID Net Subscriber, or to suspend, limit or restrict its access to the ID Net Service, under the following circumstances:

(i) if the ID Net Subscriber is in such financial or operating difficulty that the Corporation has determined, in its discretion, that such action is necessary for the protection of the Corporation and its participants;

(ii) the ID Net Subscriber has failed to comply with any requirement of the Corporation, or if it no longer meets the qualifications for status as an ID Net Subscriber set forth in this Rule;

(iii) if the ID Net Subscriber is "insolvent" as defined in Rule 20 of these Rules; or

(iv) under any circumstances in which, in the reasonable discretion of the Corporation, adequate cause exists to do so.

Such action may be taken summarily if the Corporation determines in its reasonable discretion that such summary action is in the interests of the Corporation or its participants.

(c) The ID Net Service shall not be a guaranteed service of the Corporation. If the Corporation ceases to act for a Member that is an ID Net Subscriber pursuant to Rule 18 it may post appropriate offsetting positions in order to exit any uncompleted transactions from the ID Net Service.

* * *

PROCEDURE XV. CLEARING FUND FORMULA AND OTHER MATTERS¹

I.(A) Clearing Fund Formula for Members

Each Member of the Corporation, except as otherwise provided in this Procedure, is required to contribute to the Clearing Fund maintained by the Corporation an amount calculated by the Corporation equal to:

(1) For CNS Transactions

(a) (i) The volatility of such Member's ~~net of unsettled Regular Way, When-Issued and When Distributed pending positions (i.e., net positions that have not yet passed Settlement Date) and fail positions (i.e., net positions that did not settle on Settlement Date), hereinafter collectively referred to as~~ Net Unsettled Positions, which shall be the highest resultant value among the following:

* * *

plus

(b) The net debit of each day's difference between (x) the contract price of such Member's Regular Way, When-Issued and When-Distributed net positions (excluding for transactions not submitted through the ID Net service) that have not yet passed Settlement Date and its fail positions, and (y) the Current Market Price for such positions² (such difference to be known as the "Regular Mark-to-Market"); provided that: ~~(i) the Corporation may, but shall not be required to, exclude from this calculation any shares delivered by the Member in the night cycle to satisfy all or any portion of a short position and (ii) that if the Member is an ID Net Subscriber and if the value of the Regular Mark to Market as computed above is a positive number, then the value of the Regular Mark to Market shall be zero;~~

plus

~~(c) If such Member is an ID Net Subscriber, the net of each day's difference between (x) the contract price of the net positions attributable to such Member's transactions submitted through the ID Net service, and (y) the Current Market Price for such positions (such difference to be known as the "ID Net Mark to Market"), provided that if the value of the ID Net Mark to Market as computed above is a positive number, then the value of the ID Net Mark to Market shall be zero;~~

¹ All calculations shall be performed daily or, if the Corporation deems it appropriate, on a more frequent basis.

² For fail positions, the contract price used for this purpose is the prior day's Market Price.

plus

plus

(dc) An additional payment (“special charge”) from Members in view of price fluctuations in or volatility or lack of liquidity of any security. The Corporation shall make any such determination based on such factors as the Corporation determines to be appropriate from time to time;

plus

(ed) An amount that is calculated by multiplying the Current Market Value for such Member’s aggregate CNS Fails Positions by (i) 5% for Members rated 1 through 4 on the Credit Risk Rating Matrix, (ii) 10% for Members rated 5 or 6 on the Credit Risk Rating Matrix, or (iii) 20% for Members rated 7 on the Credit Risk Rating Matrix;

plus

(fe) a margin requirement differential component charge calculated as the sum of the exponentially weighted moving average (“EWMA”) of the daily positive changes over a 100-day look back period in the Member’s (i) ~~Regular~~ Mark-to-Market component, ~~(ii) ID Net Mark to Market component~~ and (iii) volatility component, times a multiplier calibrated based on backtesting results;

plus

(gf) a coverage component charge calculated as the EWMA of the Member’s daily backtesting coverage deficiency amount over a 100-day look back period; the Member’s backtesting deficiency amount for each day is determined as the difference between the simulated profit and loss on the Member’s portfolio and the sum of the Member’s (i) volatility component and (ii) margin requirement differential component.

plus

(ig) A Margin Liquidity Adjustment (“MLA”) charge shall apply to a Member’s Net Unsettled Positions, other than long Net Unsettled Positions in Family-Issued Securities.

* * *

(2) For Balance Order Transactions

(a) (i) The volatility of such Member’s ~~net of unsettled Regular Way, When-Issued and When Distributed positions that have not yet passed Settlement~~

~~Date, hereinafter collectively referred to as~~ Net Balance Order Unsettled Positions, which shall be the highest resultant value among the following:

* * *

(b) The net of each day's difference between the contract price of such Member's Net Balance Order Unsettled Positions, and the Current Market Price for such positions;

plus

(c) An additional payment ("special charge") from Members in view of price fluctuations in or volatility or lack of liquidity of any security. The Corporation shall make any such determination based on such factors as the Corporation determines to be appropriate from time to time;

plus

(d) a margin requirement differential component charge calculated as the sum of the EWMA of the daily positive changes over a 100-day look back period in the Member's (i) ~~Regular~~ Mark-to-Market component and (ii) volatility component, times a multiplier calibrated based on backtesting results;

* * *

I.(B) Additional Clearing Fund Formula

(1) Additional Deposits for Members on the Watch List

Any Member or Limited Member who is placed on the Watch List shall be required to make such additional Clearing Fund deposits as determined by the Corporation on the same day as requested by the Corporation within such timeframe as required by the Corporation from time to time.

(2) Excess Capital Premium

If a Member's contribution to the Clearing Fund, as computed pursuant to Section I.(A) of this Procedure (but excluding any charges as set forth in Subsections I.(A)(1)(~~dc~~), (~~fe~~), (~~gf~~), and (~~ig~~); and I.(A)(2)(c), (d), (e), and (g) of this Procedure), plus any amount collected pursuant to 1.(B)(1) above or Rule 15 (such aggregate amount referred to as the "Calculated Amount"), when divided by its excess net capital or capital (as applicable), as defined in the membership standards set forth in Addendum B, is greater than 1.0 (the "Excess Capital Ratio"), then the Corporation may require such Member to deposit, within such timeframe as the Corporation may require, an additional amount (the "Excess Capital Premium") to the Clearing Fund equal to the product of: (a) the amount by which the Calculated Amount exceeds its excess net capital or capital (as applicable), as defined in the membership standards set forth in Addendum B, multiplied by (b) its Excess Capital Ratio.

Notwithstanding the foregoing, the Corporation may: (i) collect an amount less than the Excess Capital Premium (including no premium), and (ii) return all or a portion of the Excess Capital Premium if it believes that the imposition or maintenance of the Excess Capital Premium is not necessary or appropriate.³

* * *

³ The Corporation has identified the following guidelines or circumstances, which are intended to be illustrative, but not limited, where the premium will not be imposed: (a) where the premium results from charges applied with respect to municipal securities trades settling in CNS, where the member has offsetting compared trades settling on a trade-for-trade basis through DTC; and (b) management will look to see whether the premium results from an unusual or non-recurring circumstance where management believes it would not be appropriate to assess the premium. Examples of such circumstances are a member's late submission of trade data for comparison or trade recording that would otherwise reduce the margined position if timely submitted, or an unexpected haircut or capital charge that does not fundamentally change its risk profile.