

Required fields are shown with yellow backgrounds and asterisks.

| | | | | | |
|--|--|--|--|---|--|
| Page 1 of * 62 | | SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4 | | File No. * SR 2023 - * 009 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 Section 806(e)(1) * <input type="checkbox"/> | | | Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 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 *). <div>Relating to the Schedule of Haircuts for Eligible Clearing Fund Securities</div> | | | | | |
| 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 * [Redacted] Last Name * [Redacted] Title * [Redacted] E-mail * RuleFilingAdmin@dtcc.com Telephone * [Redacted] Fax [Redacted] | | | | | |
| Signature Pursuant to the requirements of the Securities Exchange of 1934, National Securities Clearing Corporation has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized. Date 09/22/2023 (Title *) By [Redacted] [Redacted] (Name *) NOTE: Clicking the signature block at right will initiate digitally signing the form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed. Date: 2023.09.22 14:50:23 -04'00' | | | | | |

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

Add Remove View

Narrative (NSCC) - Collateral Haircuts

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

Exhibit 1 - Notice of Proposed Rule Change *

Add Remove View

Exh 1A (NSCC) - Collateral Haircuts -

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 Advanced Notice by Clearing Agencies *

Add Remove View

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

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

Add Remove View

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 Sent As Paper Document

Exhibit 3 - Form, Report, or Questionnaire

Add Remove View

Exh 3 (NSCC) (Redacted) - Collateral

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 Sent As Paper Document

Exhibit 4 - Marked Copies

Add Remove View

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

Add Remove View

Exh 5 (NSCC) - Collateral Haircuts - 2

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

Add Remove View

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 Proposed Rule Change

(a) The proposed rule change of National Securities Clearing Corporation (“NSCC”) is attached hereto as Exhibit 5 and consists of modifications to NSCC’s Rules & Procedures (“Rules”)¹ in order to modify the schedule of haircuts for Eligible Clearing Fund Securities and remove it from Procedure XV of the Rules (“Procedure XV”), and make other clarifying changes, as described in greater detail below.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change relating to the haircut schedules was approved by the Risk Committee of NSCC’s Board of Directors on September 20, 2022. The proposed rule change relating to clarifying certain language was approved by a Deputy General Counsel of NSCC on September 20, 2023 pursuant to delegated authority from NSCC’s Board of Directors.

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

(a) Purpose

NSCC is proposing to modify the schedule of haircuts for Eligible Clearing Fund Securities, and to remove it and the related concentration limits from Procedure XV, and make other clarifying changes, as described in greater detail below.

Background

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.² 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

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

² 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).

member (hereinafter referred to as a “default”).³ 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. The Clearing Fund reduces the risk that NSCC would need to mutualize any losses among non-defaulting members during the liquidation process.

Under Rule 4 (Clearing Fund), members are required to make deposits to the Clearing Fund, with the amount of each member’s Required Fund Deposit being determined by NSCC in accordance with Rule 4. A member may satisfy its Required Fund Deposit with cash or an open account indebtedness secured by Eligible Clearing Fund Securities.⁴ Eligible Clearing Fund Securities, comprised of certain agency, mortgage-backed, and Treasury securities, are valued based on the prior Business Day’s closing market price, less a haircut, and may be subject to a concentration limit.⁵ Haircuts are used to protect NSCC and its members from price fluctuations, i.e., if NSCC is required to liquidate collateral of an insolvent member and such collateral is worth less at the time of liquidation than when it is pledged to NSCC. Concentration limits are intended to reduce NSCC’s risk by limiting the percentage of certain types of Eligible Clearing Fund Securities pledged by members to secure the Clearing Fund deposits. This is because 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, such securities could present additional risk to NSCC.

Currently, collateral haircuts applicable to relevant security types and remaining maturity terms are specified as fixed percentages in Section III.(A) of Procedure XV (“Section III.(A)”).⁶ The sufficiency of collateral haircuts is evaluated through use of back-tests, stress-tests and market observations. To ensure the sufficiency of the collateral haircuts, a backtesting analysis of members’ collateral deposits is conducted daily, and summary reviews are completed quarterly, each by the NSCC market risk group pursuant to NSCC’s internal market risk

³ 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), supra note 1.

⁴ See Rule 4, Section 1, supra note 1.

⁵ See Rule 1 (Definitions) for applicable definitions, including Eligible Clearing Fund Securities and its components, which are Eligible Clearing Fund Agency Securities, Eligible Clearing Fund Mortgage-Backed Securities, and Eligible Clearing Fund Treasury Securities. Supra note 1.

⁶ See Section III.(A) of Procedure XV, supra note 1. Section III.(A) was last modified in 2011 in order to conform the haircuts to requirements of NSCC’s lenders under its credit facilities. See Securities Exchange Act Release No. 64487 (May 13, 2011), 76 FR 29019 (May 19, 2011) (SR-NSCC-2011-02).

management policies and procedures. NSCC performs daily backtesting of collateral by comparing the collateral haircut for each member in simulated liquidations with the member's actual collateral held on deposit at NSCC. Any exceptions noted are escalated to management daily to assess the root cause and determine whether further analysis and/or review would be appropriate. Specifically, if NSCC determines that a particular security may present inherent volatility and/or liquidity risks that could likely result in an erosion in the value of the security exceeding the applicable collateral haircut, ad hoc reviews may be conducted by risk management pursuant to NSCC's internal market risk management procedures. On a quarterly basis, NSCC reviews and identifies instances where the simulated losses from available historical stress testing scenario dates have exceeded the collateral haircut values. In addition, each quarter, NSCC reviews the composition of the Eligible Clearing Fund Securities that members have pledged to secure their Required Fund Deposits in order to assess the sufficiency of the collateral haircuts applied and whether any haircut changes would be needed.

In addition to collateral haircuts, NSCC applies concentration limits to certain Eligible Clearing Fund Securities. Currently, the concentration limits applicable to certain Eligible Clearing Fund Securities are specified in subsections (a) and (b) of Section II.(A)1. of Procedure XV ("Section II.(A)1.").⁷ Specifically, subsection (a) provides any deposits of Eligible Clearing Fund Agency Securities or Eligible Clearing Fund Mortgage-Backed Securities in excess of 25 percent of a member's Required Fund Deposit will be subject to a haircut that is twice the amount of the percentage noted in Section III.(A). In addition, footnote 7 of subsection (a) of Section II.(A)1. provides that a member that is an Agency may not pledge Eligible Clearing Fund Agency Securities of which it is the issuer. Footnote 8 of subsection (a) provides that with regard to a member that pledges Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, such collateral will be subject to a premium haircut as specified in Section III.(A). Subsection (b) of Section II.(A)1. provides that no more than 20 percent of a member's Required Fund Deposit may be in the form of Eligible Clearing Fund Agency Securities that are of a single issuer.

Changes to the collateral haircuts and concentration limits are currently subject to NSCC's internal governance process and would remain so with respect to the haircut schedule changes made in accordance with this proposal. If NSCC determines that, based on the analyses that it performs, there is insufficient/excessive collateral haircut/concentration due to an identifiable cause that affected multiple members and such cause would likely persist based on NSCC's assessment of market condition, such outcome or result could cause NSCC to amend the haircuts/concentration limits in the haircut schedule. If NSCC determines that a change to the haircut schedule is warranted, its market risk group would document the recommendation and rationale for the change at the time of such determination and obtain approval from an executive director or above with a notice to the risk management committee, in accordance with NSCC's internal market risk management policies and procedures. Before making adjustments to the haircut schedule, NSCC measures the potential impact of such adjustments to ensure any impact is both necessary and appropriate.

⁷ See Section II.(A)1. of Procedure XV, supra note 1.

Through its review, NSCC has observed that under volatile market conditions with elevated frequency and magnitude of securities price movements, the collateral value of Eligible Clearing Fund Securities may shift in a relatively short period of time and the current haircuts may not sufficiently account for the change in value. When the erosion in the value of the Eligible Clearing Fund Securities exceeds the relevant haircuts, NSCC is exposed to increased risk of potential losses associated with liquidating a member's portfolio in the event of a member default when the defaulting member's own margin is insufficient to satisfy losses to NSCC caused by the liquidation of that member's portfolio. Similarly, 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, such securities could present additional risk to NSCC. The additional risk exposures associated with liquidating a member's portfolio in the event of a member default could lead to an increase in the likelihood that NSCC would need to mutualize losses among non-defaulting members during the liquidation process. However, any changes to the haircuts and/or concentration limits currently requires a proposed rule change to be filed with the Securities and Exchange Commission ("Commission"). In order to provide NSCC with more flexibility in adjusting the haircuts and concentration limits so NSCC can respond to changing market conditions more promptly in order to mitigate the additional risk exposure, NSCC is proposing to remove Section III.(A) and concentration limits from the Rules, and to publish the haircuts and concentration limits in a haircut schedule on NSCC's website.

Specifically, NSCC is proposing to delete subsections (a) and (b) of Section II.(A)1., and delete Section III of Procedure XV. Currently, subsections (a) and (b) of Section II.(A)1. set out certain concentration limits for Eligible Clearing Fund Agency Securities and Eligible Clearing Fund Mortgage-Backed Securities. Subsection (a) provides that any deposits of Eligible Clearing Fund Agency Securities or Eligible Clearing Fund Mortgage-Backed Securities, respectively, in excess of 25 percent of a member's Required Fund Deposit will be subject to an additional haircut equal to twice the percentage as specified in Section III.(A). In addition, footnote 8 of subsection (a) provides that with regard to a member that pledges Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, such collateral will be subject to a premium haircut as specified in Section III.(A). The same language from subsection (a) and footnote 8 of Section II.(A)1. is in Section III.(A). Having this language in both the Rules and the proposed haircut schedule is unnecessary and could potentially create confusion for members. As such, NSCC is proposing to eliminate this duplication by deleting subsection (a) and footnote 8 of Section II.(A)1., and including this language in the proposed haircut schedule.

Subsection (b) of Section II.(A)1. currently sets out an additional concentration limit with respect to Eligible Clearing Fund Agency Securities. Specifically, subsection (b) provides that no more than 20 percent of the Required Fund Deposit may be in the form of Eligible Clearing Fund Agency Securities that are of a single issuer. In addition, footnote 7 of subsection (a) provides that a member that is an Agency may not pledge Eligible Agency Securities of which it is the issuer. NSCC is proposing to delete subsection (b) and footnote 7 of Section II.(A)1., and move this language to the proposed haircut schedule. For clarity, NSCC is also proposing to revise the language currently in footnote 7 of Section II.(A)1. to provide that no member may pledge Eligible Clearing Fund Agency Securities of which it is the issuer to secure its Required Fund Deposit. NSCC would also add "Clearing Fund" in the reference to "Eligible Agency Securities" currently in the language in subsection (b) of Section II.(A)1. to reflect the correct

defined term for Eligible Clearing Fund Agency Securities, and move “may be” earlier in the first sentence for clarity.

Furthermore, NSCC is proposing to add language in Section II.(A)1. that makes it clear that all Eligible Clearing Fund Securities pledged to secure Clearing Fund deposits shall, for collateral valuation purposes, be subject to a haircut and may be subject to a concentration limit. The proposed language would provide that NSCC shall determine the applicable haircuts and any concentration limits from time to time in accordance with its internal policy and governance process, based on factors determined to be relevant by NSCC, which may include, for example, backtesting results and NSCC’s assessment of market conditions, in order to set appropriately conservative haircuts and/or concentration limits for the Eligible Clearing Fund Securities and minimize backtesting deficiency occurrences. The proposed language would also provide that the haircuts and any concentration limits prescribed by NSCC shall be set forth in a haircut schedule that is published on NSCC’s website and that it shall be the member’s responsibility to retrieve the haircut schedule. Section II.(A)1. would also indicate that NSCC will provide members with at a minimum one Business Day’s advance notice of any change in the haircut schedule.

NSCC is proposing to delete Section III of Procedure XV, which contains the haircut schedule. In addition, NSCC is proposing to (i) remove references to Section III of Procedure XV in two places in Rule 4, and replace them with a reference to Section II.(A) of Procedure XV in each case, (ii) remove references to subsections 1(a) and (b) of Section II.(A) of Procedure XV and references to Section III of Procedure XV in Rule 56 and (iii) remove a reference to Section III of Procedure XV in Section II.(A) of Procedure XV, and replace it with a reference to the proposed haircut schedule, to reflect the proposed changes described above. NSCC is also proposing to make some punctuation and grammar changes and add a reference to Procedure XV in Section 12(c) of Rule 56 to clarify the language.

Finally, NSCC is proposing to clarify some language in Sections I.(B)(1), II.(A), II.(B), II.(C) and II.(D) of Procedure XV to reflect that Mutual Fund/Insurance Services Members and other Limited Members are no longer required to make deposits into the Clearing Fund. In 2022, NSCC removed the requirement that any Limited Members, including Mutual Fund/Insurance Services Members, make any deposits to the Clearing Fund.⁸ Sections I.(B)(1), II.(A), II.(B), II.(C) and II.(D) of Procedure XV still contain references to Mutual Fund/Insurance Service Members and/or Limited Members making deposits into the Clearing Fund, and NSCC is proposing to remove those references for clarity.

NSCC believes that the proposed change to move the haircuts and concentration limits from the Rules to the website would enable NSCC to adjust the haircuts and concentration limits without undergoing a rule filing process.⁹ By being able to make appropriate and timely adjustments to the

⁸ See Securities Exchange Act Release No. 93722 (Dec. 6, 2021), 86 FR 70548 (Dec. 10, 2021) (SR-NSCC-2021-015).

⁹ Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Rule 19b-4(n)(1)(i) under the Act, if a change materially

haircuts and concentration limits, NSCC would have the flexibility to respond to changing market conditions more promptly. Having the flexibility to respond to changing market conditions more promptly would in turn help better ensure that NSCC collects sufficient margin from members as well as risk manages its credit exposures to its members. The proposed change would also align NSCC with the manner in which its affiliate, The Depository Trust Company (“DTC”), provides haircut schedules to participants.¹⁰

Concurrent with moving the haircuts and concentration limits from the Rules to the website, NSCC is also proposing to reconfigure the categories relating to Treasury securities haircuts by moving the Treasury Inflation-Protected Securities (“TIPS”) to a separate category and increasing the haircut levels for TIPS. The proposed change to TIPS is reflected in Exhibit 3c to this filing. TIPS are a type of Treasury security issued by the U.S. government that are indexed to inflation such that the principal value of the security rises as inflation rises.

In connection with NSCC’s assessments of its collateral haircuts, NSCC employs daily backtesting to determine the adequacy of each member’s collateral haircuts. NSCC compares the collateral haircuts for each member with the simulated liquidation gains/losses using the actual positions in the member’s portfolio, and the actual historical security returns. A backtesting deficiency occurs when a member’s collateral haircuts would not have been adequate to cover the simulated liquidation losses.

In connection with such assessments, NSCC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS may be inadequate to address the fluctuations from time to time. This is because TIPS are indexed to the inflation rate, and prices on TIPS move inversely to their yields, e.g., when the inflation rate increases, prices on TIPS decrease. When the decline in market value of TIPS exceeds the haircut for TIPS, NSCC would be exposed to potential liquidation losses. Accordingly, NSCC is proposing to reconfigure and modify the haircut information that would be posted on NSCC’s website to ensure that the haircut levels would be commensurate with the particular risk attributes of TIPS.

affects the nature or level of risks presented by NSCC, then NSCC is required to file an advance notice. 12 U.S.C. 5465(e)(1) and 17 CFR 240.19b-4(n)(1)(i).

¹⁰ DTC also allows its participants to pledge eligible collateral as a portion of the participant fund; however, instead of being in the DTC rulebook, the collateral haircut schedules are published periodically by Important Notice to DTC participants.

Specifically, NSCC would list TIPS of various maturity groupings in a separate category from Treasury bills, notes and bonds. In addition, NSCC would change the haircut level applicable for TIPS as follows:

| TIPS | Maturity | Current | Proposed |
|-------------|----------------------|----------------|-----------------|
| | Zero to 1 year | 2.0% | 2.0% |
| | 1 year to 2 years | 2.0% | 3.0% |
| | 2 years to 5 years | 3.0% | 5.0% |
| | 5 years to 10 years | 4.0% | 7.0% |
| | 10 years to 15 years | 6.0% | 7.0% |
| | 15 years or greater | 6.0% | 10.0% |

In determining the appropriate haircut levels for TIPS, NSCC conducted a review of TIPS haircuts at other registered clearing agencies and foreign central counterparty clearing houses (“CCPs”) to compare NSCC’s current TIPS haircuts with that required by registered clearing agencies and foreign CCPs when TIPS are deposited to their clearing funds, or the equivalent thereof. The results of the review and comparison indicated that NSCC’s current haircut levels for TIPS are generally lower than the TIPS haircuts required by other clearing agencies and foreign CCPs, particularly with respect to maturity ranges of 10 years or longer. While the TIPS haircut requirement at such other entities is not dispositive as to the risk borne by NSCC or the proper TIPS haircut levels to offset such risk, it is indicative of the TIPS haircuts being applied to users of other similarly situated entities in order to use the services of the clearing agencies and foreign CCPs and the impact to such users. The chart below shows the haircuts that participants of other clearing agencies and foreign CCPs are currently subject to when using TIPS to meet their margin requirements, as compared with the existing TIPS haircuts required at NSCC.

| TIPS Remaining Maturity (Years) | NSCC Current Collateral Haircut | ICE¹¹ | LCH¹² | CME¹³ | OCC¹⁴ |
|--|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <1 | 2.00% | 2.00% | 0.63% | 1.00% | 0.50% |
| 1 | 2.00% | | | | |
| 2 | | 3.50% | 2.38% | 2.00% | |
| 3 | 3.00% | | | | 2.00% |
| 5 | | 5.00% | 3.00% | 3.00% | |
| 7 | 4.00% | 6.75% | 4.75% | 4.50% | 3.50% |
| 10 | | | | | |
| 15 | | 11.25% | | | |
| 20 | 6.00% | 10.75% | 8.00% | 5.00% | |
| 30 | | 16.00% | | | |

NSCC is not proposing any changes to the concentration limits at this time.

Impact Study

NSCC conducted an impact study for the period from September 1, 2021 through August 31, 2022 (“Impact Study”). If the proposed haircut adjustments had been in place during the Impact Study period, the changes would have resulted in an average daily increase of \$197,000 in the Clearing Fund assuming TIPS were deposited. Two members would have been impacted with a daily average dollar increase of approximately \$123,000 (or 0.10% of their average Clearing Fund deposit) and \$74,000 (or 0.31% of their average Clearing Fund deposit), respectively, had the proposed changes been in place.

¹¹ See ICE Clear U.S. Acceptable Collateral and Haircuts, available at www.theice.com/publicdocs/clear_us/ICUS_Collateral_Information.pdf.

¹² See LCH LTD-Margin Collateral Haircut Schedule, available at www.lch.com/system/files/media_root/Collateral/Acceptable%20Collateral%20Haircuts%20LCH%20Ltd_0.pdf.

¹³ See CME Group Acceptable Performance Bond Collateral for Base Guaranty Fund Products, available at www.cmegroup.com/clearing/files/acceptable-collateral-futures-options-select-forwards.pdf.

¹⁴ See OCC Collateral Haircut Schedule, available at www.theocc.com/clearance-and-settlement/acceptable-collateral-haircuts.

Implementation Timeframe

Subject to approval by the Commission, NSCC expects to implement this proposal by no later than 60 Business Days after such approval and would announce the effective date of the proposed changes by an Important Notice posted to NSCC's website.

(b) Statutory Basis

NSCC believes this proposal is consistent with the requirements of the Act, and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, NSCC believes that the proposed changes described above are consistent with Section 17A(b)(3)(F) of the Act,¹⁵ and Rules 17Ad-22(e)(4)(i), (e)(5), (e)(6)(i), and (e)(6)(v), each promulgated under the Act,¹⁶ for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.¹⁷ As described above, NSCC believes the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide NSCC with more flexibility to respond to changing market conditions because adjustments to the haircuts and concentration limits would no longer require a rule change. By being able to make appropriate and timely adjustments to the haircuts and concentration limits, NSCC would have the flexibility to respond to changing market conditions more promptly. NSCC believes that having this additional flexibility to respond to changing market conditions more promptly would help better ensure that NSCC (i) collects sufficient margin from members to cover the risk exposures that NSCC may face in liquidating members' portfolios and (ii) minimizes exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, such that, in the event of a member default, NSCC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. In this way, the proposed rule change to move the collateral haircuts and concentration limits from the Rules to the website would assure the safeguarding of securities and funds which are in the custody and control of NSCC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.¹⁸

NSCC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. NSCC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS have been inadequate to address the fluctuations from time to time, and more conservative haircuts for TIPS are warranted.

¹⁵ 15 U.S.C. 78q-1(b)(3)(F).

¹⁶ 17 CFR 240.17Ad-22(e)(4)(i), (e)(5), (e)(6)(i), and (e)(6)(v).

¹⁷ 15 U.S.C. 78q-1(b)(3)(F).

¹⁸ Id.

Having haircut levels for TIPS that are commensurate with the particular risk attributes of TIPS would enable NSCC to collect sufficient margin from members to cover the risk exposures that NSCC may face in liquidating members' portfolios such that, in the event of a member default, NSCC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. In this way, the proposed rule change to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would assure the safeguarding of securities and funds which are in the custody and control of NSCC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.¹⁹

NSCC believes that the proposed clarifying changes would help to ensure that the Rules are clear to members. When members better understand their rights and obligations regarding the Rules, members 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. As such, NSCC believes that the proposed clarifying changes would be consistent with Section 17A(b)(3)(F) of the Act.²⁰

Rule 17Ad-22(e)(4)(i) under the Act²¹ requires a covered clearing agency to 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 exposures arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. As described above, NSCC believes the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide NSCC with more flexibility to respond to changing market conditions because adjustments to the haircuts and concentration limits would no longer require a rule change. By being able to make appropriate and timely adjustments to the haircuts and concentration limits, NSCC would have the flexibility to respond to changing market conditions more promptly. NSCC believes that having this additional flexibility to respond to changing market conditions more promptly would help ensure that NSCC (i) collects sufficient margin from members to cover the risk exposures that NSCC may face in liquidating members' portfolios and (ii) minimizes exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, such that, in the event of a member default, NSCC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. In this way, the proposed rule change to move the collateral haircuts and concentration limits from the Rules to the website would help ensure that NSCC maintains sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence, consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.²²

¹⁹ Id.

²⁰ Id.

²¹ 17 CFR 240.17Ad-22(e)(4)(i).

²² Id.

NSCC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. NSCC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS may be inadequate to address the fluctuations from time to time, and more conservative haircuts for TIPS are warranted. Ensuring that the haircut levels for TIPS are commensurate with the particular risk attributes of TIPS would in turn help ensure that NSCC requires members to maintain sufficient margin to cover the credit exposures that NSCC may face related to its ability to liquidate members' portfolios in the event of a member default. In this way, the proposed rule change to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that NSCC maintains sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence, consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.²³

Rule 17Ad-22(e)(5) under the Act²⁴ requires, in part, a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to set and enforce appropriately conservative haircuts and concentration limits if the covered clearing agency requires collateral to manage its or its participants' credit exposure. As described above, NSCC believes the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide NSCC with more flexibility to respond to changing market conditions because adjustments to the haircuts and concentration limits would no longer require a rule change. By being able to make appropriate and timely adjustments to the haircuts and concentration limits, NSCC would have the flexibility to respond to changing market conditions more promptly. NSCC believes that having this additional flexibility to respond to changing market conditions more promptly would help better ensure that NSCC (i) collects sufficient margin from members to cover the risk exposures that NSCC may face in liquidating members' portfolios and (ii) minimizes exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, such that, in the event of a member default, NSCC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. Specifically, NSCC would have the ability to promptly set and enforce conservative collateral haircuts and concentration limits that are reflective of the current market conditions. In this way, the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would help NSCC set and enforce appropriately conservative collateral haircuts and concentration limits, consistent with the requirements of Rule 17Ad-22(e)(5) under the Act.²⁵

NSCC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. NSCC has determined that in periods

²³ Id.

²⁴ 17 CFR 240.17Ad-22(e)(5).

²⁵ Id.

where the inflation rate fluctuates, the current haircut levels for TIPS have been inadequate to address the fluctuations from time to time, and more conservative haircuts for TIPS are warranted. Specifically, NSCC would have the ability to set and enforce conservative collateral haircuts that are commensurate with the particular risk attributes of TIPS. In this way, the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help NSCC set and enforce appropriately conservative collateral haircuts, consistent with the requirements of Rule 17Ad-22(e)(5) under the Act.²⁶

Rule 17Ad-22(e)(6)(i) under the Act²⁷ requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, 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. NSCC believes that the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide NSCC with more flexibility to respond to changing market conditions because NSCC would be able to make appropriate adjustments to the haircuts and concentration limits without a rule change. By being able to make appropriate and timely adjustments to the haircuts and concentration limits, NSCC would have the flexibility to respond to changing market conditions more promptly. NSCC believes that having this additional flexibility to respond to changing market conditions more promptly would enable NSCC to better risk manage its credit exposure to its members by (i) collecting sufficient margin from members to cover the risk exposures that NSCC may face in liquidating members' portfolios and (ii) minimizing exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, thus allowing NSCC to produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market. Therefore, NSCC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(i) under the Act.²⁸

NSCC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. NSCC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS may be inadequate to address the fluctuations from time to time, and more conservative haircuts for TIPS are warranted. Ensuring that the haircut levels for TIPS are commensurate with the particular risk attributes of TIPS would allow NSCC to produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market. Therefore, NSCC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(i) under the Act.²⁹

²⁶ Id.

²⁷ 17 CFR 240.17Ad-22(e)(6)(i).

²⁸ Id.

²⁹ Id.

Rule 17Ad-22(e)(6)(v) under the Act³⁰ requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products. NSCC believes that the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide NSCC with more flexibility to respond to changing market conditions more promptly because NSCC would be able to make appropriate adjustments to the haircuts and concentration limits without a rule change. Having this additional flexibility would enable NSCC to better risk manage its credit exposure to its members because NSCC would then be able to make appropriate and timely adjustments to the haircuts and concentration limits, as described above. Being able to adjust the haircuts and concentration limits appropriately and timely would allow NSCC to better risk manage its credit exposure to its members by (i) collecting sufficient margin from members to cover the risk exposures that NSCC may face in liquidating members' portfolios and (ii) minimizing exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, thus producing margin levels commensurate with relevant product risk factors and portfolio effects across products. Therefore, NSCC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(v) under the Act.³¹

NSCC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. Specifically, as proposed, NSCC would have collateral haircuts that are commensurate with the particular risk attributes of TIPS. Ensuring that the haircut levels for TIPS are commensurate with the particular risk attributes of TIPS would allow NSCC to produce margin levels commensurate with relevant product risk factors and portfolio effects across products. Therefore, NSCC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(v) under the Act.³²

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

Section 17A(b)(3)(I) of the Act requires that the rules of NSCC do not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.³³ NSCC does not believe the proposed rule changes to move the haircuts and concentration limits from the Rules to the website would impose a burden on competition. These proposed changes are designed to enable NSCC to timely respond to increases in market volatility with haircut requirements and concentration limits that are more reflective of the current credit exposures to NSCC. As discussed above, these proposed changes would allow NSCC to better risk manage its credit exposure to its members by (i) collecting sufficient margin from members to cover the

³⁰ 17 CFR 240.17Ad-22(e)(6)(v).

³¹ Id.

³² Id.

³³ 15 U.S.C. 78q-1(b)(3)(I).

risk exposures that NSCC may face in liquidating members' portfolios and (ii) minimizing exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, such that, in the event of a member default, NSCC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. These proposed changes would not unfairly inhibit access to NSCC's services, or disadvantage or favor any particular member in relationship to another member. The proposed changes would allow NSCC to adjust the haircuts and concentration limits more promptly and would not otherwise affect members' access to NSCC's services. In addition, any changes to the haircuts or concentration limits would be directly related to the perceived risk related to members' collateral based on back-tests, stress-tests and market observations, and would be applied uniformly to all members. Accordingly, NSCC believes that these proposed changes would not impose any burden or have any impact on competition.

Similarly, NSCC does not believe the proposed rule changes to move TIPS haircuts into a separate category would impose a burden on competition. These proposed changes are designed to improve the clarity and presentation of the haircut information. These proposed changes would not unfairly inhibit access to NSCC's services, or disadvantage or favor any particular member in relationship to another member, and the changes would be applied uniformly to all members. Accordingly, NSCC believes that these proposed changes would not impose any burden or have any impact on competition.

NSCC believes the proposed changes to raise certain TIPS haircut levels may have an impact on competition because these changes could result in members' Eligible Clearing Fund Securities being subject to higher haircuts than they would have been under the current haircut schedule. NSCC believes that the proposed change could burden competition by potentially increasing these members' operating costs by requiring members who are using TIPS as collateral to pledge additional collateral. Nonetheless, NSCC believes any burden on competition imposed by the proposed changes would not be significant and, regardless of whether such burden on competition could be deemed significant, would be necessary and appropriate, as permitted by Section 17A(b)(3)(I) of the Act for the reasons described in this filing and further below.³⁴

NSCC believes any burden on competition presented by the proposed changes to the TIPS haircut levels would not be significant. As discussed above, if the proposed changes to the TIPS haircut levels had been in place during the Impact Study period, two members would have been impacted with an daily average dollar increase of approximately \$123,000 (or 0.10% of their average Clearing Fund deposit) and \$74,000 (or 0.31% of their average Clearing Fund deposit), respectively. In addition, NSCC believes that the proposed changes to the TIPS haircut levels are comparable with what is being required of users of other similar registered clearing agencies and foreign CCPs when posting TIPS as collateral.

NSCC believes any burden on competition that may be imposed by the proposed changes to the TIPS haircut levels would be necessary because, as described above, the proposed changes

³⁴

Id.

would help ensure that the collateral values attributed to TIPS would be commensurate with the particular risk attributes of TIPS. Making sure proper collateral values are attributed to TIPS that are used as margin would thus help better ensure that NSCC collects sufficient margin from members and thereby assure the safeguarding of securities and funds which are in the custody and control of NSCC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.³⁵

In addition, NSCC believes the proposed changes to the TIPS haircut levels are necessary to support NSCC's compliance with Rules 17Ad-22(e)(4)(i), (e)(5), (e)(6)(i), and (e)(6)(v) under the Act. Specifically, as described above, NSCC believes these proposed changes would ensure that the haircut levels for TIPS are commensurate with the particular risk attributes of TIPS. Having haircut levels for TIPS that are commensurate with the particular risk attributes of TIPS would ensure proper collateral valuation for TIPS used as margin. Ensuring proper collateral valuation for TIPS used as margin would help NSCC better measure, monitor, and manage its credit exposures to participants and those exposures arising from its payment, clearing, and settlement processes, consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.³⁶ Ensuring proper collateral valuation for TIPS used as margin would also allow NSCC to set and enforce appropriately conservative collateral haircuts, consistent with the requirements of Rule 17Ad-22(e)(5) under the Act.³⁷ It would also help NSCC cover its credit exposures to its participants, consistent with the requirements of Rules 17Ad-22(e)(6)(i) and (e)(6)(v) under the Act.³⁸

NSCC also believes that any burden on competition that may be imposed by the proposed changes to the TIPS haircut levels would be appropriate in furtherance of the Act because these proposed changes have been specifically designed to assure the safeguarding of securities and funds which are in the custody and control of NSCC or for which it is responsible, as required by Section 17A(b)(3)(F) of the Act.³⁹ As described above, NSCC believes these proposed changes would help better ensure that NSCC collects sufficient margin from members, thus enabling NSCC to produce margin levels more commensurate with the risks it faces as a central counterparty. Accordingly, NSCC believes these proposed changes are appropriately designed to meet its risk management goals and regulatory obligations.

NSCC does not believe the proposed clarifying changes to the Rules would impact competition. These changes would help to ensure that the Rules remain clear. In addition, the 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

³⁵ 15 U.S.C. 78q-1(b)(3)(F).

³⁶ 17 CFR 240.17Ad-22(e)(4)(i).

³⁷ 17 CFR 240.17Ad-22(e)(5).

³⁸ 17 CFR 240.17Ad-22(e)(6)(i) and (e)(6)(v).

³⁹ 15 U.S.C. 78q-1(b)(3)(F).

membership. As such, NSCC believes the proposed clarifying 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 additional 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 SEC's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

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

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.

⁴⁰ 15 U.S.C. 78s(b)(2).

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 3a – NSCC Impact Study. ***Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 3a being requested pursuant to 17 CFR 240.24b-2.***

Exhibit 3b – Proposed changes to the NSCC Market Risk Management Procedure. ***Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 3b being requested pursuant to 17 CFR 240.24b-2.***

Exhibit 3c – Proposed NSCC Schedule of Haircuts for Eligible Clearing Fund Securities.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[____]; File No. SR-NSCC-2023-009)

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to the Schedule of Haircuts for Eligible Clearing Fund Securities

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 September __, 2023, 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”)³ in order to modify the schedule of haircuts for Eligible Clearing Fund Securities and remove it from Procedure XV of the Rules (“Procedure XV”), and make other clarifying changes, as described in greater detail below.

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 www.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 modify the schedule of haircuts for Eligible Clearing Fund Securities, and to remove it and the related concentration limits from Procedure XV, and make other clarifying changes, as described in greater detail below.

Background

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.⁴ 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

⁴ 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).

act for that member (hereinafter referred to as a “default”).⁵ 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. The Clearing Fund reduces the risk that NSCC would need to mutualize any losses among non-defaulting members during the liquidation process.

Under Rule 4 (Clearing Fund), members are required to make deposits to the Clearing Fund, with the amount of each member’s Required Fund Deposit being determined by NSCC in accordance with Rule 4. A member may satisfy its Required Fund Deposit with cash or an open account indebtedness secured by Eligible Clearing Fund Securities.⁶ Eligible Clearing Fund Securities, comprised of certain agency, mortgage-backed, and Treasury securities, are valued based on the prior Business Day’s closing market price, less a haircut, and may be subject to a concentration limit.⁷ Haircuts are used to protect NSCC and its members from price fluctuations, i.e., if NSCC is required to liquidate collateral of an insolvent member and such collateral is worth less at the time of liquidation than when it is pledged to NSCC. Concentration limits are

⁵ 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), supra note 3.

⁶ See Rule 4, Section 1, supra note 3.

⁷ See Rule 1 (Definitions) for applicable definitions, including Eligible Clearing Fund Securities and its components, which are Eligible Clearing Fund Agency Securities, Eligible Clearing Fund Mortgage-Backed Securities, and Eligible Clearing Fund Treasury Securities. Supra note 3.

intended to reduce NSCC's risk by limiting the percentage of certain types of Eligible Clearing Fund Securities pledged by members to secure the Clearing Fund deposits. This is because 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, such securities could present additional risk to NSCC.

Currently, collateral haircuts applicable to relevant security types and remaining maturity terms are specified as fixed percentages in Section III.(A) of Procedure XV ("Section III.(A)").⁸ The sufficiency of collateral haircuts is evaluated through use of back-tests, stress-tests and market observations. To ensure the sufficiency of the collateral haircuts, a backtesting analysis of members' collateral deposits is conducted daily, and summary reviews are completed quarterly, each by the NSCC market risk group pursuant to NSCC's internal market risk management policies and procedures. NSCC performs daily backtesting of collateral by comparing the collateral haircut for each member in simulated liquidations with the member's actual collateral held on deposit at NSCC. Any exceptions noted are escalated to management daily to assess the root cause and determine whether further analysis and/or review would be appropriate. Specifically, if NSCC determines that a particular security may present inherent volatility and/or liquidity risks that could likely result in an erosion in the value of the security exceeding the applicable collateral haircut, ad hoc reviews may be conducted by risk management pursuant to NSCC's internal market risk management procedures. On a

⁸ See Section III.(A) of Procedure XV, supra note 3. Section III.(A) was last modified in 2011 in order to conform the haircuts to requirements of NSCC's lenders under its credit facilities. See Securities Exchange Act Release No. 64487 (May 13, 2011), 76 FR 29019 (May 19, 2011) (SR-NSCC-2011-02).

quarterly basis, NSCC reviews and identifies instances where the simulated losses from available historical stress testing scenario dates have exceeded the collateral haircut values. In addition, each quarter, NSCC reviews the composition of the Eligible Clearing Fund Securities that members have pledged to secure their Required Fund Deposits in order to assess the sufficiency of the collateral haircuts applied and whether any haircut changes would be needed.

In addition to collateral haircuts, NSCC applies concentration limits to certain Eligible Clearing Fund Securities. Currently, the concentration limits applicable to certain Eligible Clearing Fund Securities are specified in subsections (a) and (b) of Section II.(A)1. of Procedure XV (“Section II.(A)1.”).⁹ Specifically, subsection (a) provides any deposits of Eligible Clearing Fund Agency Securities or Eligible Clearing Fund Mortgage-Backed Securities in excess of 25 percent of a member’s Required Fund Deposit will be subject to a haircut that is twice the amount of the percentage noted in Section III.(A). In addition, footnote 7 of subsection (a) of Section II.(A)1. provides that a member that is an Agency may not pledge Eligible Clearing Fund Agency Securities of which it is the issuer. Footnote 8 of subsection (a) provides that with regard to a member that pledges Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, such collateral will be subject to a premium haircut as specified in Section III.(A). Subsection (b) of Section II.(A)1. provides that no more than 20 percent of a member’s Required Fund Deposit may be in the form of Eligible Clearing Fund Agency Securities that are of a single issuer.

⁹ See Section II.(A)1. of Procedure XV, supra note 3.

Changes to the collateral haircuts and concentration limits are currently subject to NSCC's internal governance process and would remain so with respect to the haircut schedule changes made in accordance with this proposal. If NSCC determines that, based on the analyses that it performs, there is insufficient/excessive collateral haircut/concentration due to an identifiable cause that affected multiple members and such cause would likely persist based on NSCC's assessment of market conditions, such outcome or result could cause NSCC to amend the haircuts/concentration limits in the haircut schedule. If NSCC determines that a change to the haircut schedule is warranted, its market risk group would document the recommendation and rationale for the change at the time of such determination and obtain approval from an executive director or above with a notice to the risk management committee, in accordance with NSCC's internal market risk management policies and procedures. Before making adjustments to the haircut schedule, NSCC measures the potential impact of such adjustments to ensure any impact is both necessary and appropriate.

Through its review, NSCC has observed that under volatile market conditions with elevated frequency and magnitude of securities price movements, the collateral value of Eligible Clearing Fund Securities may shift in a relatively short period of time and the current haircuts may not sufficiently account for the change in value. When the erosion in the value of the Eligible Clearing Fund Securities exceeds the relevant haircuts, NSCC is exposed to increased risk of potential losses associated with liquidating a member's portfolio in the event of a member default when the defaulting member's own margin is insufficient to satisfy losses to NSCC caused by the liquidation of that member's portfolio. Similarly, 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, such securities could present additional risk to NSCC. The additional risk exposures associated with liquidating a member's portfolio in the event of a member default could lead to an increase in the likelihood that NSCC would need to mutualize losses among non-defaulting members during the liquidation process. However, any changes to the haircuts and/or concentration limits currently requires a proposed rule change to be filed with the Commission. In order to provide NSCC with more flexibility in adjusting the haircuts and concentration limits so NSCC can respond to changing market conditions more promptly in order to mitigate the additional risk exposure, NSCC is proposing to remove Section III.(A) and concentration limits from the Rules, and to publish the haircuts and concentration limits in a haircut schedule on NSCC's website.

Specifically, NSCC is proposing to delete subsections (a) and (b) of Section II.(A)1., and delete Section III of Procedure XV. Currently, subsections (a) and (b) of Section II.(A)1. set out certain concentration limits for Eligible Clearing Fund Agency Securities and Eligible Clearing Fund Mortgage-Backed Securities. Subsection (a) provides that any deposits of Eligible Clearing Fund Agency Securities or Eligible Clearing Fund Mortgage-Backed Securities, respectively, in excess of 25 percent of a member's Required Fund Deposit will be subject to an additional haircut equal to twice the percentage as specified in Section III.(A). In addition, footnote 8 of subsection (a) provides that with regard to a member that pledges Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, such collateral will be subject to a premium haircut as specified in Section III.(A). The same language from subsection (a) and footnote 8 of Section II.(A)1. is in Section III.(A). Having this language in both the

Rules and the proposed haircut schedule is unnecessary and could potentially create confusion for members. As such, NSCC is proposing to eliminate this duplication by deleting subsection (a) and footnote 8 of Section II.(A)1., and including this language in the proposed haircut schedule.

Subsection (b) of Section II.(A)1. currently sets out an additional concentration limit with respect to Eligible Clearing Fund Agency Securities. Specifically, subsection (b) provides that no more than 20 percent of the Required Fund Deposit may be in the form of Eligible Clearing Fund Agency Securities that are of a single issuer. In addition, footnote 7 of subsection (a) provides that a member that is an Agency may not pledge Eligible Agency Securities of which it is the issuer. NSCC is proposing to delete subsection (b) and footnote 7 of Section II.(A)1., and move this language to the proposed haircut schedule. For clarity, NSCC is also proposing to revise the language currently in footnote 7 of Section II.(A)1. to provide that no member may pledge Eligible Clearing Fund Agency Securities of which it is the issuer to secure its Required Fund Deposit. NSCC would also add “Clearing Fund” in the reference to “Eligible Agency Securities” currently in the language in subsection (b) of Section II.(A)1. to reflect the correct defined term for Eligible Clearing Fund Agency Securities, and move “may be” earlier in the first sentence for clarity.

Furthermore, NSCC is proposing to add language in Section II.(A)1. that makes it clear that all Eligible Clearing Fund Securities pledged to secure Clearing Fund deposits shall, for collateral valuation purposes, be subject to a haircut and may be subject to a concentration limit. The proposed language would provide that NSCC shall determine the applicable haircuts and any concentration limits from time to time in accordance with

its internal policy and governance process, based on factors determined to be relevant by NSCC, which may include, for example, backtesting results and NSCC's assessment of market conditions, in order to set appropriately conservative haircuts and/or concentration limits for the Eligible Clearing Fund Securities and minimize backtesting deficiency occurrences. The proposed language would also provide that the haircuts and any concentration limits prescribed by NSCC shall be set forth in a haircut schedule that is published on NSCC's website and that it shall be the member's responsibility to retrieve the haircut schedule. Section II.(A)1. would also indicate that NSCC will provide members with at a minimum one Business Day's advance notice of any change in the haircut schedule.

NSCC is proposing to delete Section III of Procedure XV, which contains the haircut schedule. In addition, NSCC is proposing to (i) remove references to Section III of Procedure XV in two places in Rule 4, and replace them with a reference to Section II.(A) of Procedure XV in each case, (ii) remove references to subsections 1(a) and (b) of Section II.(A) of Procedure XV and references to Section III of Procedure XV in Rule 56 and (iii) remove a reference to Section III of Procedure XV in Section II.(A) of Procedure XV, and replace it with a reference to the proposed haircut schedule, to reflect the proposed changes described above. NSCC is also proposing to make some punctuation and grammar changes and add a reference to Procedure XV in Section 12(c) of Rule 56 to clarify the language.

Finally, NSCC is proposing to clarify some language in Sections I.(B)(1), II.(A), II.(B), II.(C) and II.(D) of Procedure XV to reflect that Mutual Fund/Insurance Services Members and other Limited Members are no longer required to make deposits into the

Clearing Fund. In 2022, NSCC removed the requirement that any Limited Members, including Mutual Fund/Insurance Services Members, make any deposits to the Clearing Fund.¹⁰ Sections I.(B)(1), II.(A), II.(B), II.(C) and II.(D) of Procedure XV still contain references to Mutual Fund/Insurance Service Members and/or Limited Members making deposits into the Clearing Fund, and NSCC is proposing to remove those references for clarity.

NSCC believes that the proposed change to move the haircuts and concentration limits from the Rules to the website would enable NSCC to adjust the haircuts and concentration limits without undergoing a rule filing process.¹¹ By being able to make appropriate and timely adjustments to the haircuts and concentration limits, NSCC would have the flexibility to respond to changing market conditions more promptly. Having the flexibility to respond to changing market conditions more promptly would in turn help better ensure that NSCC collects sufficient margin from members as well as risk manages its credit exposures to its members. The proposed change would also align NSCC with the manner in which its affiliate, The Depository Trust Company (“DTC”), provides haircut schedules to participants.¹²

¹⁰ See Securities Exchange Act Release No. 93722 (Dec. 6, 2021), 86 FR 70548 (Dec. 10, 2021) (SR-NSCC-2021-015).

¹¹ Pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Rule 19b-4(n)(1)(i) under the Act, if a change materially affects the nature or level of risks presented by NSCC, then NSCC is required to file an advance notice. 12 U.S.C. 5465(e)(1) and 17 CFR 240.19b-4(n)(1)(i).

¹² DTC also allows its participants to pledge eligible collateral as a portion of the participant fund; however, instead of being in the DTC rulebook, the collateral haircut schedules are published periodically by Important Notice to DTC participants.

Concurrent with moving the haircuts and concentration limits from the Rules to the website, NSCC is also proposing to reconfigure the categories relating to Treasury securities haircuts by moving the Treasury Inflation-Protected Securities (“TIPS”) to a separate category and increasing the haircut levels for TIPS. The proposed change to TIPS is reflected in Exhibit 3c to this filing. TIPS are a type of Treasury security issued by the U.S. government that are indexed to inflation such that the principal value of the security rises as inflation rises.

In connection with NSCC’s assessments of its collateral haircuts, NSCC employs daily backtesting to determine the adequacy of each member’s collateral haircuts. NSCC compares the collateral haircuts for each member with the simulated liquidation gains/losses using the actual positions in the member’s portfolio, and the actual historical security returns. A backtesting deficiency occurs when a member’s collateral haircuts would not have been adequate to cover the simulated liquidation losses.

In connection with such assessments, NSCC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS may be inadequate to address the fluctuations from time to time. This is because TIPS are indexed to the inflation rate, and prices on TIPS move inversely to their yields, e.g., when the inflation rate increases, prices on TIPS decrease. When the decline in market value of TIPS exceeds the haircut for TIPS, NSCC would be exposed to potential liquidation losses. Accordingly, NSCC is proposing to reconfigure and modify the haircut information that would be posted on NSCC’s website to ensure that the haircut levels would be commensurate with the particular risk attributes of TIPS.

Specifically, NSCC would list TIPS of various maturity groupings in a separate category from Treasury bills, notes and bonds. In addition, NSCC would change the haircut level applicable for TIPS as follows:

| TIPS | Maturity | Current | Proposed |
|-------------|----------------------|----------------|-----------------|
| | Zero to 1 year | 2.0% | 2.0% |
| | 1 year to 2 years | 2.0% | 3.0% |
| | 2 years to 5 years | 3.0% | 5.0% |
| | 5 years to 10 years | 4.0% | 7.0% |
| | 10 years to 15 years | 6.0% | 7.0% |
| | 15 years or greater | 6.0% | 10.0% |

In determining the appropriate haircut levels for TIPS, NSCC conducted a review of TIPS haircuts at other registered clearing agencies and foreign central counterparty clearing houses (“CCPs”) to compare NSCC’s current TIPS haircuts with that required by registered clearing agencies and foreign CCPs when TIPS are deposited to their clearing funds, or the equivalent thereof. The results of the review and comparison indicated that NSCC’s current haircut levels for TIPS are generally lower than the TIPS haircuts required by other clearing agencies and foreign CCPs, particularly with respect to maturity ranges of 10 years or longer. While the TIPS haircut requirement at such other entities is not dispositive as to the risk borne by NSCC or the proper TIPS haircut levels to offset such risk, it is indicative of the TIPS haircuts being applied to users of other similarly situated entities in order to use the services of the clearing agencies and foreign CCPs and the impact to such users. The chart below shows the haircuts that participants of other clearing agencies and foreign CCPs are currently subject to when using TIPS to meet their margin requirements, as compared with the existing TIPS haircuts required at NSCC.

| TIPS Remaining Maturity (Years) | NSCC Current Collateral Haircut | ICE¹³ | LCH¹⁴ | CME¹⁵ | OCC¹⁶ |
|--|--|-------------------------|-------------------------|-------------------------|-------------------------|
| <1 | 2.00% | 2.00% | 0.63% | 1.00% | 0.50% |
| 1 | 2.00% | | | | |
| 2 | | 3.50% | 2.38% | 2.00% | |
| 3 | 3.00% | | | | 2.00% |
| 5 | | 5.00% | 3.00% | 3.00% | |
| 7 | 4.00% | 6.75% | 4.75% | 4.50% | 3.50% |
| 10 | | | | | |
| 15 | | 11.25% | | | |
| 20 | 6.00% | | 10.75% | 8.00% | 5.00% |
| 30 | | 16.00% | | | |

NSCC is not proposing any changes to the concentration limits at this time.

Impact Study

NSCC conducted an impact study for the period from September 1, 2021 through August 31, 2022 (“Impact Study”). If the proposed haircut adjustments had been in place during the Impact Study period, the changes would have resulted in an average daily increase of \$197,000 in the Clearing Fund assuming TIPS were deposited. Two members would have been impacted with a daily average dollar increase of approximately

¹³ See ICE Clear U.S. Acceptable Collateral and Haircuts, available at www.theice.com/publicdocs/clear_us/ICUS_Collateral_Information.pdf.

¹⁴ See LCH LTD-Margin Collateral Haircut Schedule, available at www.lch.com/system/files/media_root/Collateral/Acceptable%20Collateral%20Haircuts%20LCH%20Ltd_0.pdf.

¹⁵ See CME Group Acceptable Performance Bond Collateral for Base Guaranty Fund Products, available at www.cmegroup.com/clearing/files/acceptable-collateral-futures-options-select-forwards.pdf.

¹⁶ See OCC Collateral Haircut Schedule, available at www.theocc.com/clearance-and-settlement/acceptable-collateral-haircuts.

\$123,000 (or 0.10% of their average Clearing Fund deposit) and \$74,000 (or 0.31% of their average Clearing Fund deposit), respectively, had the proposed changes been in place.

Implementation Timeframe

Subject to approval by the Commission, NSCC expects to implement this proposal by no later than 60 Business Days after such approval and would announce the effective date of the proposed changes by an Important Notice posted to NSCC's website.

2. Statutory Basis

NSCC believes this proposal is consistent with the requirements of the Act, and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, NSCC believes that the proposed changes described above are consistent with Section 17A(b)(3)(F) of the Act,¹⁷ and Rules 17Ad-22(e)(4)(i), (e)(5), (e)(6)(i), and (e)(6)(v), each promulgated under the Act,¹⁸ for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.¹⁹ As described above, NSCC believes the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide NSCC with more flexibility to respond to changing market conditions because adjustments to the haircuts

¹⁷ 15 U.S.C. 78q-1(b)(3)(F).

¹⁸ 17 CFR 240.17Ad-22(e)(4)(i), (e)(5), (e)(6)(i), and (e)(6)(v).

¹⁹ 15 U.S.C. 78q-1(b)(3)(F).

and concentration limits would no longer require a rule change. By being able to make appropriate and timely adjustments to the haircuts and concentration limits, NSCC would have the flexibility to respond to changing market conditions more promptly. NSCC believes that having this additional flexibility to respond to changing market conditions more promptly would help better ensure that NSCC (i) collects sufficient margin from members to cover the risk exposures that NSCC may face in liquidating members' portfolios and (ii) minimizes exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, such that, in the event of a member default, NSCC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. In this way, the proposed rule change to move the collateral haircuts and concentration limits from the Rules to the website would assure the safeguarding of securities and funds which are in the custody and control of NSCC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.²⁰

NSCC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. NSCC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS have been inadequate to address the fluctuations from time to time, and more conservative haircuts for TIPS are warranted. Having haircut levels for TIPS that are commensurate with the particular risk attributes of TIPS would enable NSCC to collect sufficient margin from members to cover the risk exposures that NSCC may face in

²⁰ Id.

liquidating members' portfolios such that, in the event of a member default, NSCC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. In this way, the proposed rule change to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would assure the safeguarding of securities and funds which are in the custody and control of NSCC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.²¹

NSCC believes that the proposed clarifying changes would help to ensure that the Rules are clear to members. When members better understand their rights and obligations regarding the Rules, members 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. As such, NSCC believes that the proposed clarifying changes would be consistent with Section 17A(b)(3)(F) of the Act.²²

Rule 17Ad-22(e)(4)(i) under the Act²³ requires a covered clearing agency to 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 exposures arising from its payment, clearing, and settlement processes by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. As described above, NSCC believes the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide NSCC with more flexibility to respond to

²¹ Id.

²² Id.

²³ 17 CFR 240.17Ad-22(e)(4)(i).

changing market conditions because adjustments to the haircuts and concentration limits would no longer require a rule change. By being able to make appropriate and timely adjustments to the haircuts and concentration limits, NSCC would have the flexibility to respond to changing market conditions more promptly. NSCC believes that having this additional flexibility to respond to changing market conditions more promptly would help ensure that NSCC (i) collects sufficient margin from members to cover the risk exposures that NSCC may face in liquidating members' portfolios and (ii) minimizes exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, such that, in the event of a member default, NSCC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. In this way, the proposed rule change to move the collateral haircuts and concentration limits from the Rules to the website would help ensure that NSCC maintains sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence, consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.²⁴

NSCC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. NSCC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS may be inadequate to address the fluctuations from time to time, and more conservative haircuts for TIPS are warranted. Ensuring that the haircut levels for TIPS are commensurate with the particular risk attributes of TIPS would in turn help ensure that

²⁴ Id.

NSCC requires members to maintain sufficient margin to cover the credit exposures that NSCC may face related to its ability to liquidate members' portfolios in the event of a member default. In this way, the proposed rule change to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that NSCC maintains sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence, consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.²⁵

Rule 17Ad-22(e)(5) under the Act²⁶ requires, in part, a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to set and enforce appropriately conservative haircuts and concentration limits if the covered clearing agency requires collateral to manage its or its participants' credit exposure. As described above, NSCC believes the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide NSCC with more flexibility to respond to changing market conditions because adjustments to the haircuts and concentration limits would no longer require a rule change. By being able to make appropriate and timely adjustments to the haircuts and concentration limits, NSCC would have the flexibility to respond to changing market conditions more promptly. NSCC believes that having this additional flexibility to respond to changing market conditions more promptly would help better ensure that NSCC (i) collects sufficient margin from members to cover the risk exposures that NSCC may face in liquidating members' portfolios and (ii) minimizes exposures from members

²⁵ Id.

²⁶ 17 CFR 240.17Ad-22(e)(5).

with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, such that, in the event of a member default, NSCC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. Specifically, NSCC would have the ability to promptly set and enforce conservative collateral haircuts and concentration limits that are reflective of the current market conditions. In this way, the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would help NSCC set and enforce appropriately conservative collateral haircuts and concentration limits, consistent with the requirements of Rule 17Ad-22(e)(5) under the Act.²⁷

NSCC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. NSCC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS have been inadequate to address the fluctuations from time to time, and more conservative haircuts for TIPS are warranted. Specifically, NSCC would have the ability to set and enforce conservative collateral haircuts that are commensurate with the particular risk attributes of TIPS. In this way, the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help NSCC set and enforce appropriately conservative collateral haircuts, consistent with the requirements of Rule 17Ad-22(e)(5) under the Act.²⁸

²⁷ Id.

²⁸ Id.

Rule 17Ad-22(e)(6)(i) under the Act²⁹ requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, 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. NSCC believes that the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide NSCC with more flexibility to respond to changing market conditions because NSCC would be able to make appropriate adjustments to the haircuts and concentration limits without a rule change. By being able to make appropriate and timely adjustments to the haircuts and concentration limits, NSCC would have the flexibility to respond to changing market conditions more promptly. NSCC believes that having this additional flexibility to respond to changing market conditions more promptly would enable NSCC to better risk manage its credit exposure to its members by (i) collecting sufficient margin from members to cover the risk exposures that NSCC may face in liquidating members' portfolios and (ii) minimizing exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, thus allowing NSCC to produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market. Therefore, NSCC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(i) under the Act.³⁰

²⁹ 17 CFR 240.17Ad-22(e)(6)(i).

³⁰ Id.

NSCC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. NSCC has determined that in periods where the inflation rate fluctuates, the current haircut levels for TIPS may be inadequate to address the fluctuations from time to time, and more conservative haircuts for TIPS are warranted. Ensuring that the haircut levels for TIPS are commensurate with the particular risk attributes of TIPS would allow NSCC to produce margin levels commensurate with the risks and particular attributes of each relevant product, portfolio, and market. Therefore, NSCC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(i) under the Act.³¹

Rule 17Ad-22(e)(6)(v) under the Act³² requires a covered clearing agency to establish, implement, maintain and enforce written policies and procedures reasonably designed to cover, if the covered clearing agency provides central counterparty services, its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, uses an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products. NSCC believes that the proposed changes to move the collateral haircuts and concentration limits from the Rules to the website would provide NSCC with more flexibility to respond to changing market conditions more promptly because NSCC would be able to make appropriate adjustments to the haircuts and concentration limits without a rule change. Having this additional flexibility would enable NSCC to better risk manage its credit exposure to its members

³¹ Id.

³² 17 CFR 240.17Ad-22(e)(6)(v).

because NSCC would then be able to make appropriate and timely adjustments to the haircuts and concentration limits, as described above. Being able to adjust the haircuts and concentration limits appropriately and timely would allow NSCC to better risk manage its credit exposure to its members by (i) collecting sufficient margin from members to cover the risk exposures that NSCC may face in liquidating members' portfolios and (ii) minimizing exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, thus producing margin levels commensurate with relevant product risk factors and portfolio effects across products. Therefore, NSCC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(v) under the Act.³³

NSCC also believes the proposed changes to move TIPS haircuts into a separate category and raise the haircut levels for TIPS would help ensure that the haircut levels for TIPS would be commensurate with the particular risk attributes of TIPS. Specifically, as proposed, NSCC would have collateral haircuts that are commensurate with the particular risk attributes of TIPS. Ensuring that the haircut levels for TIPS are commensurate with the particular risk attributes of TIPS would allow NSCC to produce margin levels commensurate with relevant product risk factors and portfolio effects across products. Therefore, NSCC believes this proposed change is consistent with Rule 17Ad-22(e)(6)(v) under the Act.³⁴

³³ Id.

³⁴ Id.

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

Section 17A(b)(3)(I) of the Act requires that the rules of NSCC do not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.³⁵ NSCC does not believe the proposed rule changes to move the haircuts and concentration limits from the Rules to the website would impose a burden on competition. These proposed changes are designed to enable NSCC to timely respond to increases in market volatility with haircut requirements and concentration limits that are more reflective of the current credit exposures to NSCC. As discussed above, these proposed changes would allow NSCC to better risk manage its credit exposure to its members by (i) collecting sufficient margin from members to cover the risk exposures that NSCC may face in liquidating members' portfolios and (ii) minimizing exposures from members with large collateral positions in a particular group of securities with a similar risk profile or in a particular asset type, such that, in the event of a member default, NSCC's operations would not be disrupted, and non-defaulting members would not be exposed to losses they cannot anticipate or control. These proposed changes would not unfairly inhibit access to NSCC's services, or disadvantage or favor any particular member in relationship to another member. The proposed changes would allow NSCC to adjust the haircuts and concentration limits more promptly and would not otherwise affect members' access to NSCC's services. In addition, any changes to the haircuts or concentration limits would be directly related to the perceived risk related to members' collateral based on back-tests, stress-tests and market observations, and would

³⁵ 15 U.S.C. 78q-1(b)(3)(I).

be applied uniformly to all members. Accordingly, NSCC believes that these proposed changes would not impose any burden or have any impact on competition.

Similarly, NSCC does not believe the proposed rule changes to move TIPS haircuts into a separate category would impose a burden on competition. These proposed changes are designed to improve the clarity and presentation of the haircut information. These proposed changes would not unfairly inhibit access to NSCC's services, or disadvantage or favor any particular member in relationship to another member, and the changes would be applied uniformly to all members. Accordingly, NSCC believes that these proposed changes would not impose any burden or have any impact on competition.

NSCC believes the proposed changes to raise certain TIPS haircut levels may have an impact on competition because these changes could result in members' Eligible Clearing Fund Securities being subject to higher haircuts than they would have been under the current haircut schedule. NSCC believes that the proposed change could burden competition by potentially increasing these members' operating costs by requiring members who are using TIPS as collateral to pledge additional collateral. Nonetheless, NSCC believes any burden on competition imposed by the proposed changes would not be significant and, regardless of whether such burden on competition could be deemed significant, would be necessary and appropriate, as permitted by Section 17A(b)(3)(I) of the Act for the reasons described in this filing and further below.³⁶

³⁶

Id.

NSCC believes any burden on competition presented by the proposed changes to the TIPS haircut levels would not be significant. As discussed above, if the proposed changes to the TIPS haircut levels had been in place during the Impact Study period, two members would have been impacted with an daily average dollar increase of approximately \$123,000 (or 0.10% of their average Clearing Fund deposit) and \$74,000 (or 0.31% of their average Clearing Fund deposit), respectively. In addition, NSCC believes that the proposed changes to the TIPS haircut levels are comparable with what is being required of users of other similar registered clearing agencies and foreign CCPs when posting TIPS as collateral.

NSCC believes any burden on competition that may be imposed by the proposed changes to the TIPS haircut levels would be necessary because, as described above, the proposed changes would help ensure that the collateral values attributed to TIPS would be commensurate with the particular risk attributes of TIPS. Making sure proper collateral values are attributed to TIPS that are used as margin would thus help better ensure that NSCC collects sufficient margin from members and thereby assure the safeguarding of securities and funds which are in the custody and control of NSCC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.³⁷

In addition, NSCC believes the proposed changes to the TIPS haircut levels are necessary to support NSCC's compliance with Rules 17Ad-22(e)(4)(i), (e)(5), (e)(6)(i), and (e)(6)(v) under the Act. Specifically, as described above, NSCC believes these proposed changes would ensure that the haircut levels for TIPS are commensurate with the particular risk attributes of TIPS. Having haircut levels for TIPS that are

³⁷ 15 U.S.C. 78q-1(b)(3)(F).

commensurate with the particular risk attributes of TIPS would ensure proper collateral valuation for TIPS used as margin. Ensuring proper collateral valuation for TIPS used as margin would help NSCC better measure, monitor, and manage its credit exposures to participants and those exposures arising from its payment, clearing, and settlement processes, consistent with the requirements of Rule 17Ad-22(e)(4)(i) under the Act.³⁸ Ensuring proper collateral valuation for TIPS used as margin would also allow NSCC to set and enforce appropriately conservative collateral haircuts, consistent with the requirements of Rule 17Ad-22(e)(5) under the Act.³⁹ It would also help NSCC cover its credit exposures to its participants, consistent with the requirements of Rules 17Ad-22(e)(6)(i) and (e)(6)(v) under the Act.⁴⁰

NSCC also believes that any burden on competition that may be imposed by the proposed changes to the TIPS haircut levels would be appropriate in furtherance of the Act because these proposed changes have been specifically designed to assure the safeguarding of securities and funds which are in the custody and control of NSCC or for which it is responsible, as required by Section 17A(b)(3)(F) of the Act.⁴¹ As described above, NSCC believes these proposed changes would help better ensure that NSCC collects sufficient margin from members, thus enabling NSCC to produce margin levels more commensurate with the risks it faces as a central counterparty. Accordingly, NSCC

³⁸ 17 CFR 240.17Ad-22(e)(4)(i).

³⁹ 17 CFR 240.17Ad-22(e)(5).

⁴⁰ 17 CFR 240.17Ad-22(e)(6)(i) and (e)(6)(v).

⁴¹ 15 U.S.C. 78q-1(b)(3)(F).

believes these proposed changes are appropriately designed to meet its risk management goals and regulatory obligations.

NSCC does not believe the proposed clarifying changes to the Rules would impact competition. These changes would help to ensure that the Rules remain clear. In addition, the 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 the proposed clarifying 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 additional 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 SEC's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

NSCC reserves the right to not 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-2023-009 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-2023-009. 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 (dtcc.com/legal/sec-rule-filings). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-NSCC-2023-009 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).

EXHIBIT 3a

The information contained in this Exhibit 3a is subject to exemption from mandatory disclosure under Exemptions #4 and #8 of the Freedom of Information Act because the information concerns (i) trade secrets and commercial information that is privileged or confidential and (ii) information that concerns the supervision of NSCC, a financial institution. This Exhibit 3a contains one or more electronic files embedded in a one-page document for filing efficiency, as listed below. The information contained in the embedded file or files is not intended for public disclosure. Accordingly, this Exhibit 3a has been redacted and confidential treatment requested pursuant to 17 CFR 240.24b-2. An unredacted version was filed separately and confidentially with the Securities and Exchange Commission. Notwithstanding the request for confidential treatment, NSCC believes the substance of this Exhibit 3a is clearly and adequately described in the accompanying Exhibit 1A and Form 19b-4 narrative to the proposed rule change filing, thus allowing for meaningful public comment.

Embedded File(s):

- NSCC Impact Study; spreadsheet file; impact study data.

PAGE REDACTED IN ITS ENTIRETY

EXHIBIT 3b

The information contained in this Exhibit 3b is subject to exemption from mandatory disclosure under Exemptions #4 and #8 of the Freedom of Information Act because the information concerns (i) trade secrets and commercial information that is privileged or confidential and (ii) information that concerns the supervision of NSCC, a financial institution. This Exhibit 3b contains one or more electronic files embedded in a one-page document for filing efficiency, as listed below. The information contained in the embedded file or files is not intended for public disclosure. Accordingly, this Exhibit 3b has been redacted and confidential treatment requested pursuant to 17 CFR 240.24b-2. An unredacted version was filed separately and confidentially with the Securities and Exchange Commission.

Embedded File(s):

- Proposed changes to the NSCC Market Risk Management Procedure; 6 pages; internal risk management procedures.

PAGE REDACTED IN ITS ENTIRETY

EXHIBIT 3c**NSCC SCHEDULE OF HAIRCUTS FOR ELIGIBLE CLEARING FUND SECURITIES****EFFECTIVE DATE: [Month] [Day], [Year]**

| Security Type | Remaining Maturity | Haircut |
|---|-----------------------------|----------------|
| 1. Treasury | | |
| Bills, Notes, Bonds | Zero to 1 year | 2.0% |
| | 1 year to 2 years | 2.0% |
| | 2 years to 5 years | 3.0% |
| | 5 years to 10 years | 4.0% |
| | 10 years to 15 years | 6.0% |
| | 15 years or greater | 6.0% |
| Treasury Inflation-Protected Securities (TIPS) | Zero to 1 year | 2.0% |
| | 1 year to 2 years | 3.0% |
| | 2 years to 5 years | 5.0% |
| | 5 years to 10 years | 7.0% |
| | 10 years to 15 years | 7.0% |
| | 15 years or greater | 10.0% |
| Zero Coupon | Zero to 1 year | 5.0% |
| | 1 year to 2 years | 5.0% |
| | 2 years to 5 years | 5.0% |
| | 5 years to 10 years | 12.0% |
| | 10 years to 15 years | 12.0% |
| | 15 years or greater | 12.0% |
| 2. Agency^{1 2} | | |
| Notes, Bonds | Zero to 1 year | 7.0% |
| | 1 year to 2 years | 7.0% |
| | 2 years to 5 years | 7.0% |
| | 5 years to 10 years | 7.0% |
| | 10 years to 15 years | 10.0% |
| | 15 years or greater | 10.0% |
| Zero Coupon | Zero to 1 year | 7.0% |
| | 1 year to 2 years | 7.0% |
| | 2 years to 5 years | 7.0% |
| | 5 years to 10 years | 18.0% |
| | 10 years to 15 years | 18.0% |
| | 15 years or greater | 18.0% |
| 3. MBS Pass-Throughs¹ | Ginnie Mae | 7.0% |
| | Fannie Mae/Freddie Mac/UMBS | 7.0% |
| 4. Self-issued MBS³ | | 14% |

-
- 1 Any deposits of Eligible Clearing Fund Agency Securities or Eligible Clearing Fund Mortgage-Backed Securities in excess of 25% of a Member's Required Fund Deposit will be subject to a haircut that is twice the amount of the percentage noted in this schedule. Eligibility requirements will be announced by NSCC from time to time.
- 2 No more than 20% of a Member's Required Fund Deposit may be secured by pledged Eligible Clearing Fund Agency Securities of a single issuer and no Member may pledge Eligible Clearing Fund Agency Securities of which it is the issuer to secure its Required Fund Deposit.
- 3 A Member may deposit Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, however such securities will be subject to a premium haircut. This haircut shall be 14% as an initial matter. If a Member also exceeds the 25% concentration limit, the haircut shall be 21%.

**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.

~~Bold, strikethrough and shaded text~~ indicates proposed deleted language in connection with a separate proposal that has been approved by the SEC but not yet implemented (SR-NSCC-2022-015).

RULE 4. CLEARING FUND

[Changes to this Rule, as amended by File No. SR-NSCC-2023-009, are available at www.dtcc.com/legal/sec-rule-filings. These changes have been approved by the SEC but have not yet been implemented. By no later than [insert date 60 Business Days after the approval of SR-NSCC-2023-009], these changes will be implemented and this legend will be automatically removed from this Rule.]

SEC. 1. *Required Fund Deposits.* Each Member shall make and maintain on an ongoing basis a deposit to the Clearing Fund. The amount of each Member's required deposit shall be determined by the Corporation in accordance with Procedure XV and other applicable Rules and Procedures (the "Required Fund Deposit"). The minimum Required Fund Deposit, excluding Required SFT Deposit, for each Member shall be \$250,000. The Corporation may require any such Member to deposit additional amounts to the Clearing Fund pursuant to Rule 15. A Member may in its discretion maintain additional deposits at the Corporation, subject to any Procedures or other requirements the Corporation may establish for such excess amounts. For purposes of these Rules and Procedures, such additional deposits shall be deemed to be part of the Clearing Fund and the Member's Actual Deposit but shall not be deemed to be part of the Member's Required Fund Deposit.

The Corporation may permit Members to satisfy their Required Fund Deposit obligations through a combination of cash and open account indebtedness secured by Eligible Clearing Fund Securities, as further described in Procedure XV¹. The aggregate of cash deposited, the collateral value of pledged Eligible Clearing Fund Securities determined in accordance with ~~Section II.(A)~~**Section III** of Procedure XV, and the face amount of any Eligible Letters of Credit shall not at any time be less than the Member's Required Fund Deposit.

¹ In addition, the Corporation reserves the right to require participants to post a letter of credit in an instance where the Corporation, in its discretion, believes the participant presents legal risk. In such circumstances the Corporation may require part of a participant's deposit to be evidenced by an open account indebtedness supported by one or more irrevocable letters of credit with a maturity of no more than one year issued on behalf of the participant in favor of the Corporation (i) under which a bank, trust company or United States branch or agency of a foreign bank (hereinafter, an "Issuer"), in each case approved by the Corporation for such purpose, is obligated to honor drafts up to a specified amount drawn on it by the Corporation and (ii) the terms and conditions of which the Corporation determines are acceptable to the Corporation in its sole discretion (each such letter of credit, an "Eligible Letter of Credit"). Any amount drawn on any Eligible Letters of Credit shall be deposited into, and constitute an additional cash deposit to, the Clearing Fund and shall reduce the participant's open account indebtedness by a corresponding amount. Within ten (10) calendar days prior to the stated expiration date of any such Eligible Letter of Credit or within such time as the Corporation shall direct upon receipt by the Corporation of written notice from an approved bank of an earlier expiration date of any Eligible Letter of Credit supporting a participant's open account indebtedness, such participant shall make a substitution for the Eligible Letter of Credit, in accordance with the provisions of this Rule, in the amount required, effective upon or prior to the expiration of the Eligible Letter of Credit.

SEC. 9. *Excess Clearing Fund Deposits.* The Corporation shall determine with such frequency as it shall, from time to time to specify, whether the amount deposited by each Member to the Clearing Fund may be in excess of such Member's Required Fund Deposit. On any day that the Corporation has determined that an excess deposit exists with respect to any Member, the Corporation will, in the form and manner required by the Corporation, notify each such Member of such excess. Subject to the Corporation's rights under these Rules and Procedures to require additional amounts to be deposited by a Member, upon a Member's request, and in accordance with such procedures as the Corporation may set forth from time to time, the Corporation shall return to the Member such amount of its excess cash on deposit (subject to the minimum amount of cash required to be maintained in the Clearing Fund) and/or pledged Eligible Clearing Fund Securities (valued at their collateral value in accordance with ~~Section II.(A)~~~~Section III~~ of Procedure XV on the day of such withdrawal) as the Member requests. Notwithstanding the foregoing, the Corporation may, in its discretion, determine to withhold all or part of any excess deposit of a Member if such Member has been placed on the Watch List pursuant to these Rules and Procedures or if the Corporation determines that the Member's anticipated activities in the Corporation in the near future may reasonably be expected to be materially different than its activities of the recent past.

RULE 56. SECURITIES FINANCING TRANSACTION CLEARING SERVICE

[Changes to this Rule, as amended by File No. SR-NSCC-2023-009, are available at www.dtcc.com/legal/sec-rule-filings. These changes have been approved by the SEC but have not yet been implemented. By no later than [Insert date 60 Business Days after the approval of SR-NSCC-2023-009], these changes will be implemented and this legend will be automatically removed from this Rule.]

SEC. 12. Clearing Fund Obligations.

(c) The Corporation shall calculate the amount of each such SFT Member's required deposit for SFT Positions, subject to a \$250,000 minimum (excluding the minimum contribution to the Clearing Fund as required by Procedure XV, Section II.(A)), by applying the Clearing Fund formula for CNS Transactions in Sections I.(A)(1)(a),² (b),

² ~~For the purpose of applying Section I.(A)(1)(a)(i) of Procedure XV (Value at Risk (VaR) charge), the volatility of an SFT Member's SFT Positions shall be the sum of (a) the highest resultant value between Section I.(A)(1)(a)(i)I. (Core Parametric Estimation) and Section I.(A)(1)(a)(i)III. (Margin Floor) and (b) the resultant value of Section I.(A)(1)(a)(i)II. (Gap Risk Measure).~~

(c), (e), (f), (g)³ of Procedure XV, as well as the additional Clearing Fund formula in Section I.(B)(5) (Intraday Mark-to-Market Charge) and (6) (Intraday Volatility Charge) of Procedure XV, except as noted otherwise, in the same manner as such sections apply to CNS Transactions submitted to the Corporation for regular way settlement, plus, with respect to any Non-Returned SFT, an additional charge that is calculated by (x) multiplying the Current Market Price of the SFT Securities that are the subject of such Non-Returned SFTs by the number of such SFT Securities that are the subject of the SFT and (y) multiplying such product by (i) 5% for SFT Members rated 1 through 4 on the Credit Risk Rating Matrix, (ii) 10% for SFT Members rated 5 or 6 on the Credit Risk Rating Matrix, or (iii) 20% for SFT Members rated 7 on the Credit Risk Rating Matrix shall be applied to each SFT Member that is a party thereto (collectively, the "Required SFT Deposit"); provided, however, notwithstanding anything to the contrary, (x) a minimum of 40% of an SFT Member's Required SFT Deposit shall be made in the form of cash and/or Eligible Clearing Fund Treasury Securities and (y) the lesser of \$5,000,000 or 10% of an SFT Member's Required SFT Deposit, with a minimum of \$250,000, must be made and maintained in cash; provided, further, the additional Clearing Fund formula in Sections I.(B)(1) (Additional Deposits for Members on the Watch List),¹ (2) (Excess Capital Premium),² (3) (Backtesting Charge),³ **and** (4) (Bank Holiday Charge) **of Procedure XV, as well as the** Minimum Clearing Fund and Additional Deposit Requirements in Sections II.(A)~~1(a) — (b)~~, II.(B), II.(C), and II.(D); **as well as Section III (Collateral Value of Eligible Clearing Fund Securities)** of Procedure XV, shall apply to SFT Members in the same manner as such sections apply to Members.

³ For the purpose of applying Section I.(A)(1)(g) of Procedure XV (Margin Liquidity Adjustment (MLA) charge), SFT Positions shall be aggregated with Net Unsettled Positions, as defined in Rule 1, in the same asset group or subgroup; provided, however, in the event such aggregation results in a reduction of the aggregate positions in the relevant asset group or subgroup, the Corporation shall apply the greater of (a) the sum of MLA charges separately calculated for SFT Positions and Net Unsettled Positions in the asset group or subgroup and (b) the MLA charge calculated from aggregating the SFT Positions and the Net Unsettled Positions in the asset group or subgroup.

PROCEDURE XV. CLEARING FUND FORMULA AND OTHER MATTERS¹

[Changes to this Procedure, as amended by File No. SR-NSCC-2023-009, are available at www.dtcc.com/legal/sec-rule-filings. These changes have been approved by the SEC but have not yet been implemented. By no later than [insert date 60 Business Days after the approval of SR-NSCC-2023-009], these changes will be implemented and this legend will automatically be removed from this Procedure.]

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.

II. Minimum Clearing Fund and Additional Deposit Requirements

(A) Each Member of the Corporation shall be required to contribute a minimum of \$250,000 (the “minimum contribution”), excluding Required SFT Deposit. The first 40% (but no less than \$250,000) of a Member’s Required Fund Deposit (excluding Required SFT Deposit) must be in cash and the remaining amount, may be evidenced by open account indebtedness secured by the pledge of Eligible Clearing Fund Securities, which shall be valued, for collateral purposes, as set forth in a haircut schedule (described in subsection 1. below)~~subsection III below. A Mutual Fund/Insurance Services Member’s entire deposit is required to be in cash.~~

1. Special Provisions Related to Eligible Clearing Fund Securities:

All Eligible Clearing Fund Securities pledged to secure Clearing Fund deposits shall, for collateral valuation purposes, be subject to a haircut and may be subject to a concentration limit. The Corporation shall determine the applicable haircuts and any concentration limits from time to time in accordance with its internal policy and governance process, based on factors determined to be relevant by the Corporation, which may include, for example, backtesting results and the Corporation’s assessment of market conditions, in order to set appropriately conservative haircuts and/or concentration limits for the Eligible Clearing Fund Securities and minimize backtesting deficiency occurrences. The

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

haircuts and any concentration limits prescribed by the Corporation shall be set forth in a haircut schedule that is published on the Corporation's website. It shall be the Member's responsibility to retrieve the haircut schedule. The Corporation will provide Members with at a minimum one Business Day's advance notice of any change in the haircut schedule.

- ~~(a) Any deposits of Eligible Clearing Fund Agency Securities⁷ or Eligible Clearing Fund Mortgage-Backed Securities⁸, respectively, in excess of 25 percent of the Member's Required Fund Deposit will be subject to an additional haircut equal to twice the percentage as specified in the proposed haircut schedule detailed in subsection III below, and~~**
- ~~(b) No more than 20 percent of a Member's Required Fund Deposit secured by pledged Eligible Agency Securities may be of a single issuer.~~**

(B) All Clearing Fund requirements and other deposit requirements shall be made by Members ~~and Mutual Fund/Insurance Services Members~~, within one hour of demand unless otherwise determined by the Corporation; provided, however, that to the extent the Member ~~and Mutual Fund/Insurance Services Member~~ is meeting such obligation with a (1) deposit of cash, such deposit shall be made by Federal Funds wire transfer and be received no later than fifteen minutes prior to the close of the Federal Funds wire, and (2) delivery of eligible securities, such delivery shall be received within the deadlines established by DTC. At the discretion of the Corporation, cash deposits may be included as part of the Member's ~~or Mutual Fund/Insurance Services Member's~~, daily settlement obligation.

(C) Additional Clearing Fund deposits shall not be requested unless they exceed such threshold as determined by the Corporation from time to time; provided that the affected Member ~~or Limited Member~~ is not on the Watch List.

(D) Where the amount of a Member's ~~and Mutual Fund/Insurance Services Member's~~ deficiency is in excess of \$1,000 but less than \$5,000, the Corporation may require payment in multiples of \$1,000. Where the amount of the deficiency is in excess of \$5,000, the Corporation may require payment in multiples of \$5,000.

⁷ ~~A Member that is an Agency may not pledge Eligible Clearing Fund Agency Securities of which it is the issuer.~~

⁸ ~~With regard to a Member that pledges Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, such securities will be subject to a premium haircut, as set forth in subsection III below.~~

III. ~~Collateral Value of Eligible Clearing Fund Securities~~

(A) ~~Eligible Clearing Fund Securities pledged to secure Clearing Fund deposits shall, for collateral valuation purposes, be haircut as follows, or as otherwise determined by the Corporation from time to time based on factors determined to be relevant by the Corporation from time to time:~~

| Security Type | Remaining Maturity | Haircut |
|--------------------------------------|---------------------------------|------------------|
| 1. Treasury | | |
| Bills, Notes, Bonds, TIPS | Zero to 1 year | 2.0% |
| | 1 year to 2 years | 2.0% |
| | 2 years to 5 years | 3.0% |
| | 5 years to 10 years | 4.0% |
| | 10 years to 15 years | 6.0% |
| | 15 years or greater | 6.0% |
| Zero Coupon | Zero to 1 year | 5.0% |
| | 1 year to 2 years | 5.0% |
| | 2 years to 5 years | 5.0% |
| | 5 years to 10 years | 12.0% |
| | 10 years to 15 years | 12.0% |
| | 15 years or greater | 12.0% |

2. Agency*

| | | |
|-------------------------|---------------------------------|------------------|
| Notes, Bonds | Zero to 1 year | 7.0% |
| | 1 year to 2 years | 7.0% |
| | 2 years to 5 years | 7.0% |
| | 5 years to 10 years | 7.0% |
| | 10 years to 15 years | 10.0% |
| | 15 years or greater | 10.0% |
| Zero Coupon | Zero to 1 year | 7.0% |
| | 1 year to 2 years | 7.0% |
| | 2 years to 5 years | 7.0% |
| | 5 years to 10 years | 18.0% |
| | 10 years to 15 years | 18.0% |
| | 15 years or greater | 18.0% |

3. Mortgage-Backed Security

| | | |
|---------------------------|-----------------------------------|--|
| Pass-Throughs* | Ginnie Mae | 7.0% |
| | Fannie Mae/Freddie Mac | 7.0% |
| Self-issued** | | 14% (or 21% if Concentration limit is exceeded) |

*—Any deposits of Eligible Clearing Fund Agency Securities or Eligible Clearing Fund Mortgage-Backed Securities in excess of 25 percent of a Member's Required Clearing Fund deposit will be subject to a haircut that is twice the amount of the percentage noted in the haircut schedule. Eligibility requirements will be announced by the Corporation from time to time.

**—A Member may deposit Eligible Clearing Fund Mortgage-Backed Securities of which it is the issuer, however such securities will be subject to a premium haircut. This haircut shall be 14% as an initial matter. If a Member also exceeds the 25% concentration limit, the haircut shall be 21%.