

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-66068; File No. SR-NSCC-2011-10]

### Self-Regulatory Organizations; The National Securities Clearing Corporation; Order Granting Approval of a Proposed Rule Change To Amend Rules Relating To the Creation of a Service To Provide Post-Trade Information

December 29, 2011.

#### I. Introduction

On November 7, 2011, The National Securities Clearing Corporation (“NSCC”) filed proposed rule change SR-NSCC-2011-10 with the Securities and Exchange Commission (“Commission”) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).<sup>1</sup> Notice of the proposed rule change was published in the *Federal Register* on November 25, 2011.<sup>2</sup> The Commission received no comment letters. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

#### II. Description

NSCC is creating an optional service for NSCC members, “Trade Risk Pro” or “DTCC Trade Risk Pro,” which will enable members to monitor intraday trading activity of their organizations, their correspondent firms, or both through review of post-trade data. An effective risk management structure provides for multiple check points, including pre-trade controls and post-trade surveillance. Industry participants have indicated to NSCC that pre-trade monitoring as a stand-alone risk management tool may not provide adequate protection for firms or against systemic risk. For example, many orders are never actually executed and thus a pre-trade filter could overestimate potential positions or could generate false positives if not combined with information about what orders are actually executed. In addition, clearing firms only see their correspondents’ orders that are routed through the clearing firm’s trading desks or through the firm’s order entry systems. Orders sent directly to the market can bypass pretrade controls. Trade Risk Pro will provide NSCC’s members with a method to monitor clearing activity in their accounts and to set parameters that will enable them to monitor exposure.

As approved, the service will be available to NSCC members on a voluntary basis to provide those members electing to participate in the service with: (1) Post-trade data relating to unsettled equity and fixed income securities trades for a given day that have been compared or recorded through NSCC’s trade capture mechanisms on that day (“RP Trade Date Data”) and (2) other information based upon data the participating member may itself provide at start of or throughout the day (“RP Member-provided Data”), as provided in NSCC’s Rules and Procedures governing the proposed service (RP Trade Date Data and RP Member-provided Data shall collectively be referred to as “RP Transaction Data”). This will include allowing members the ability to input or load trade information from prior days into the system to supplement their view of overall risk exposure. As such, the Trade Risk Pro service will offer an industry-wide post-trade reporting system that will allow members to monitor their U.S. equity and fixed-income trading exposure.

#### *Overview of the Trade Risk Pro Service*

Through Trade Risk Pro, NSCC will utilize market and other information to report post-trade activity to participating members. Such reporting will incorporate RP Trade Date Data from transactions in equity and municipal and corporate debt securities after such transactions have: (1) Passed through the NSCC’s edit checks and not been pended or rejected and (2) been recorded or compared through NSCC’s Universal Trade Capture and/or Real-Time Trade Matching trade capture and comparison systems. In addition, Trade Risk Pro will allow participating members to input or load start of day and intraday positions (*i.e.*, RP Member-provided Data) to allow members to view their organization’s (or one or more correspondent’s) aggregate open positions in securities cleared through NSCC. Within Trade Risk Pro, members will be able to create “Risk Entities” to track activity for specific correspondents and clients as well as their own trading desks and to define the rules for the aggregation of trade data, to set parameters on open positions allowable for each Risk Entity, and to receive alerts for the display of breaches or near breaches of the parameters.<sup>3</sup> Trade Risk Pro will

provide members with a screen-based view of their trade data residing in Trade Risk Pro for a given day aggregated and organized according to parameters set by the member. Displays provided to participating members will offer the option to view aggregate and net value, to view share exposure across markets and other liquidity destinations, and to see exposure at the CUSIP and individual trade levels. In conformance with NSCC’s Rule 49 (Release of Clearing Data and Clearing Fund Data), each member will only be able to view information with respect to its own clearing account(s). Trade Risk Pro will be a reporting service only and any action taken by a member as a result of any alert, parameter breach, or other information associated with the service will be at the discretion of the member and not either in whole or part by NSCC.

NSCC will create a new Rule 54 (Trade Risk Pro) and Procedure XVII (Trade Risk Pro) to reflect the proposed rule changes described below. The new rule change also will amend Rule 58 (Limitations of Liability) and will update Rule 1 (Definitions) to include definitions for RP Trade Data, RP Member-provided Data, and RP Transaction Data, as described more fully below.

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

As an initial step in using the Trade Risk Pro service, members will be required to establish Risk Entities (*e.g.*, trading activity of a single desk, a correspondent, single or multiple NSCC clearing number(s), or a combination of entities). Trade Risk Pro will provide members with the ability to create Risk Entities through the defining and updating of the data structure and relationships for the entities to which they assign a parameter or risk limit. The Risk Entity definitions entered by members will drive position calculations and displays in Trade Risk Pro. Trade Risk Pro will provide members with a facility to set share and dollar limits with respect to each Risk Entity at a gross and net level, and it may provide for additional limits as NSCC may determine from time to time are appropriate.

Through the use of trade arrays, each member may define the Risk Entities so that only trades that the member intends to belong to that Risk Entity are included. For each trade, relevant data elements to create a trade array may include: (1) The member’s account number(s), (2) the executing broker, (3) the submitting market or firm, and (4) other categories as allowed by NSCC

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

<sup>2</sup> Securities Exchange Act Release No. 65788 (November 18, 2011), 76 FR 72741 (November 25, 2011).

<sup>3</sup> Members will be able to input such limits into the Trade Risk Pro interface in order to receive system alerts in the event of a breach; however, these limits will not trigger a block by NSCC on any activity processed through NSCC’s clearance and settlement systems.

from time to time. Use of these elements will create an array so that each transaction will be assigned by virtue of the array to one or more Risk Entities. Users can assign multiple trade arrays to a single Risk Entity.

Once implemented, updates and changes made to Risk Entities by the member will take effect overnight with a cut-off time designated by NSCC from time to time.<sup>4</sup> Although Trade Risk Pro will prohibit double counting of trades within the same Risk Entity, it is possible that two separate Risk Entities may contain defined elements as specified by the member that cause a specific trade to be included into both Risk Entities.

## 2. Limit Monitoring

Trade Risk Pro will aggregate and make available position information for purposes of the member's limit monitoring. The aggregate data will be the sum of RP Member-provided data and RP Trade Date Data with the aggregated data defined as RP Transaction Data in NSCC's Rules and Procedures. RP Trade Date Data, RP Member-provided Data, and other relevant data will be aggregated and sorted, and the data will then be displayed to the member. The display may include shares and values on a gross or net basis or any other total aggregation and sorting methods as NSCC may from time to time make available to members. RP Trade Date Data will be carried at contract amount unless another pricing method is implemented by NSCC. RP Member-provided Data will be priced according to information provided by the member.

Intraday allocations in the settlement system will not be taken into consideration because they are not fully effective until money settlement completes (*i.e.*, after the day cycle). The totals will be compared to the parameters set by the members, and the members will be alerted to breaches based upon their set parameters. The alerts may take the form of visual screen changes or other notification methods. The service will also provide updated information when the alert is resolved (*e.g.*, when the Risk Entity is within the relevant limit as a result of an offsetting transaction reducing the position or the participant raises the limit for a Risk Entity). Information such as alert history, members' Risk Entity definitions, end of day positions, and other data that NSCC provides from

<sup>4</sup> Post-implementation of Trade Risk Pro, NSCC may eventually at its discretion provide for real-time updates.

time to time will be supplied to members in an end of day report.

## 3. No Effect on Trade Guaranty and Other Considerations

The rule change will provide that any reports and data supplied to members through Trade Risk Pro is not intended to impact the timing or status of the guaranty of any transaction in CNS or Balance Order Securities. In addition, the issuance of information or data through Trade Risk Pro to a member or the lack of the issuance of information will not of itself indicate or have any bearing on the status of any trade including, but not limited to, as compared, locked-in, validated, guaranteed, or not guaranteed.

## 4. Limitation of Liability

Trade Risk Pro provides members with a facility to review and monitor trade activity in a manner they select, including providing members with the ability to populate the service (but not limited to the ability to input or load positions), define Risk Entities and set limits, and receive alerts and position data of their choosing. Since NSCC is not the originator of information made available through Trade Risk Pro, NSCC will make clear that it is not responsible for the completeness or accuracy of Trade Date Data or other information or data which it receives from members or third parties used in offering the Trade Risk Pro service, for information or data that is received and compared or recorded by NSCC, or for any errors, omissions, or delays which may occur in the transmission of such data or information. In addition, because not all transactions are submitted to NSCC on a real-time basis, NSCC can only provide members using the service with Trade Date Data as it becomes compared or recorded. Accordingly, members should be aware that such Trade Date Data may not be complete.

## 5. Indemnification

Since each member may use the information for purposes of its own discretion, the rule change will provide that any member participating in Trade Risk Pro shall indemnify NSCC and any or all of its employees, officers, directors, shareholders, agents, and participants who may sustain any loss, liability or expense as a result of a third party claim related to any act or omission of the member made in reliance upon data or information transmitted through Trade Risk Pro by NSCC to the member.

## 6. Implementation Time Frame

NSCC will implement the above changes during the first quarter of 2012 or soon thereafter, with the actual implementation date announced to members through an Important Notice.

## III. Discussion

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of a clearing agency be designed to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.<sup>5</sup> The Commission believes that by providing its members with a mechanism to their monitor post-trade activity on an intraday basis, the proposed rule change should enhance the risk management ability of those members using the service. By providing for enhanced risk management, the proposed rule change should help remove impediments to and perfect the mechanism of the national system for the prompt and accurate clearance and settlement of securities transactions.

Accordingly, for the reasons stated above the Commission believes that the proposed rule change is consistent with NSCC's obligation under Section 17A of the Exchange Act and the rules and regulations thereunder.<sup>6</sup>

## IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the requirements of the Act, particularly with the requirements of Section 17A of the Act, and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-NSCC-2011-10) be and hereby is approved.

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

**Kevin M. O'Neill,**  
Deputy Secretary.

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<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>6</sup> In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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