For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[20]

Kevin M. O'Neill,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–70688; File No. SR–NSCC–2013–02]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing Amendment No. 3 to a Proposed Rule Change, as Previously Modified by Amendment Nos. 1 and 2, To Institute Supplemental Liquidity Deposits to Its Clearing Fund Designed To Increase Liquidity Resources To Meet Its Liquidity Needs

October 15, 2013.

On March 21, 2013, National Securities Clearing Corporation (''NSCC'') filed with the Securities and Exchange Commission (''Commission'') proposed rule change SR–NSCC–2013–02 (''Proposed Rule Change'') pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Exchange Act'') [1] and Rule 19b–4 thereunder.[2] The Proposed Rule Change was published for comment in the **Federal Register** on April 10, 2013.[3] On April 19, 2013, NSCC filed with the Commission Amendment No. 1 to the Proposed Rule Change, which the Commission published for comment in the **Federal Register** on May 29, 2013 and designated a longer period for Commission action on the Proposed Rule Change, as amended.[4] On June 11, 2013, NSCC filed with the Commission Amendment No. 2 to the Proposed Rule Change, as previously modified by Amendment No. 1, which the Commission published for comment in the **Federal Register** on July 15, 2013, with an order instituting proceedings to determine whether to approve or disapprove the Proposed Rule Change (''Order Instituting Proceedings'').[5] On September 25, 2013, the Commission designated a longer period of review for Commission action on the Order Instituting Proceedings.[6] As of October 15, 2013, the Commission had received 22 comment letters on the proposal contained in the Proposed Rule Change and its related Advance Notice,[7] including NSCC's two responses to the comment letters received as of August 20, 2013.[8]

Pursuant to Section 19(b)(1) of the Exchange Act [9] and Rule 19b–4 thereunder,[10] notice is hereby given that on October 7, 2013, NSCC filed with the Commission Amendment No. 3 to the Proposed Rule Change, as previously modified by Amendment Nos. 1 and 2, as described in Items I and II below, which Items have been prepared primarily by NSCC. The Commission is publishing this notice to solicit comments on the Proposed Rule Change, as modified by Amendment No. 3, from interested persons.[11]

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The Proposed Rule Change, as modified by Amendments No. 1, No. 2, and No. 3, is a proposal by NSCC to amend its Rules & Procedures (the ''NSCC Rules'') to provide for supplemental liquidity deposits to its Clearing Fund (the ''NSCC Clearing Fund'') to ensure that NSCC has adequate liquidity resources to meet its liquidity needs (the ''SLD Proposal'' or sometimes the ''Proposal''), as described below. NSCC filed Amendment No. 3 (this ''Amendment'') to the Proposed Rule Change, as previously modified by Amendment No. 1 and No. 2, in order to delete the provisions in the proposed Rule relating to Regular Activity Liquidity Obligations (as defined), to respond to concerns raised by Members. As a result the Proposal, as revised, would impose supplemental liquidity obligations on affected Members only with respect to activity relating to monthly options expiry periods (defined in the proposed Rule as ''Special Activity Liquidity Obligations'').

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

In its filing with the Commission, NSCC included statements concerning the purpose of and basis for the Proposed Rule Change, as modified by Amendment No. 3, and discussed any comments it received on the Proposed Rule Change. The text of these statements may be examined at the places specified in Item IV below. NSCC has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Description of Change

Existing Proposal

As noted in the original proposal contained in the Proposed Rule Change, as modified by Amendments No. 1 and No. 2 (the ''Rule Filing''), the SLD Proposal would modify the NSCC Rules to add a new Rule 4(A), to establish a supplemental liquidity funding obligation designed to cover the liquidity exposure attributable to those Members and families of affiliated Members (''Affiliated Families'') that regularly incur the largest gross settlement debits over a settlement cycle during both times of normal trading activity (''Regular Activity Periods'') and times of increased trading and settlement activity that arise around monthly options expiration dates (''Options Expiration Activity Periods'').

Under the existing Proposal, the Liquidity Obligation of a Member or Affiliated Family with respect to a

[20] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4. NSCC also filed the proposal contained in the Proposed Rule Change as advance notice SR–NSCC–2013–802 (''Advance Notice''), as modified by Amendment No. 1, pursuant to Section 806(e)(1) of the Payment, Clearing, and Settlement Supervision Act of 2010 and Rule 19b–4(n)(1)(i) thereunder. *See* Release No. 34–69451 (Apr. 25, 2013), 78 FR 25496 (May 1, 2013). On May 20, 2013, the Commission extended the period of review of the Advance Notice, as modified by Amendment No. 1. Release No. 34–69605 (May 20, 2013), 78 FR 31616 (May 24, 2013). On June 11, 2013, NSCC filed Amendment No. 2 to the Advance Notice, as previously modified by Amendment No. 1. Release No. 34–69954 (Jul. 9, 2013), 78 FR 42127 (Jul. 15, 2013). On October 4, 2013, NSCC filed Amendment No. 3 to the Advance Notice, as previously modified by Amendment Nos. 1 and 2. Release No. 34–70689 (Oct. 15, 2013). The proposal in the Proposed Rule Change, as amended, and the Advance Notice, as amended, shall not take effect until all regulatory actions required with respect to the proposal are completed.

[3] Release No. 34–69313 (Apr. 4, 2013), 78 FR 21487 (Apr. 10, 2013).

[4] Release No. 34–69620 (May 22, 2013), 78 FR 32292 (May 29, 2013).

[5] Release No. 34–69951 (Jul. 9, 2013), 78 FR 42140 (Jul. 15, 2013).

[6] Release No. 34–70501 (Sep. 25, 2013), 78 FR 60347 (Oct. 1, 2013).

[7] *See* Comments Received on File Nos. SR–NSCC–2013–02 (*http://sec.gov/comments/sr-nscc-2013-02/nscc201302.shtml*) and SR–NSCC–2013–802 (*http://sec.gov/comments/sr-nscc-2013-802/nscc2013802.shtml*). Since the proposal contained in the Proposed Rule Change was also filed as an Advance Notice, *see* Release No. 34–69451, *supra* note 2, the Commission is considering all public comments received on the proposal regardless of whether the comments are submitted to the Proposed Rule Change, as amended, or the Advance Notice, as amended.

[8] NSCC also received a comment letter directly prior to filing the Proposed Rule Change and related Advance Notice with the Commission, which NSCC provided to the Commission in Amendment No. 1 to the filings. *See* Exhibit 2 to File No. SR–NSCC–2013–02 (*http://sec.gov/rules/sro/nscc/2013/34-69620-ex2.pdf*).

[9] 15 U.S.C. 78s(b)(1).

[10] 17 CFR 240.19b–4.

[11] Defined terms that are not defined in this notice are defined in Amended Exhibit 5 to the Proposed Rule Change, available at *http://sec.gov/rules/sro/nscc.shtml*, under File No. SR–NSCC–2013–02, Additional Materials.

Regular Activity Period (a ''Regular Activity Liquidity Obligation'') or an Options Expiration Activity Period (a ''Special Activity Liquidity Obligation'') would be imposed on the 30 Members or Affiliated Families who generate the largest aggregate liquidity needs over a settlement cycle that would apply in the event of a closeout (that is, over a period from date of default through the following three settlement days), based upon an historical look-back period. The calculations for both the Regular Activity Liquidity Obligation and the Special Activity Liquidity Obligation were designed so that NSCC has adequate liquidity resources to enable it to settle transactions, notwithstanding the default of one of these 30 largest Members or Affiliated Families during Regular Activity Periods, as well as during Options Expiration Activity Periods. The liquidity obligations imposed on Members of Affiliated Families would be apportioned among the Members in that Affiliated Family in proportion to the liquidity risk (or peak exposure) they present to NSCC. The Regular Activity Liquidity Obligation of an Unaffiliated Member or Affiliated Family that has a Regular Activity Liquidity Obligation (a Regular Activity Liquidity Provider) is satisfied by such Regular Activity Liquidity Provider making a Regular Activity Supplemental Deposit to the Clearing Fund in the amount of its Regular Activity Liquidity Obligation, offset by (i) the total amount (if any) of its commitment and the commitment of its ''Designated Lender'' under NSCC's committed line of credit (the ''Credit Facility'') and (ii) a share of the unallocated commitments of other lenders under the Credit Facility.

The cash deposit in respect of a Special Activity Liquidity Obligation (a ''Special Activity Supplemental Deposit'') is structured in the existing SLD Proposal to address any additional liquidity shortfalls (over and above NSCC's other available liquidity resources) that arise during the heightened activity period around monthly options expiration. As such, these additional Special Activity Supplemental Deposits would be required to be maintained on deposit with NSCC only through the completion of the related settlement cycle and for a few days thereafter.

Objections From Commenters

The key concerns raised by commenters with respect to the existing SLD Proposal were as follows:

First, commenters claimed that Members were not sufficiently consulted or involved during the development of the Proposal (even though NSCC management conducted significant Member outreach), so that the Proposal lacked input that could have potentially resulted in a less burdensome approach.

Second, commenters claimed that the Proposal was anticompetitive or discriminatory because the obligation to provide supplemental liquidity was imposed on only the 30 largest Unaffiliated Members or Affiliated Families (even though those Members collectively represent approximately 85% of NSCC's total membership by peak liquidity needs), rather than all Members of NSCC. This concern was raised in the context of Regular Activity Supplemental Deposits.

Third, commenters claimed that the existing Proposal was anticompetitive or discriminatory because, with respect to Regular Activity Supplemental Deposits, it gave a dollar for dollar credit for commitments made by Regular Activity Liquidity Providers or their Designated Lenders under the Credit Facility—supposedly favoring Regular Activity Liquidity Providers with affiliated banks.

NSCC believes that the proposed amendments and items described below address or mitigate all of these concerns.

Proposed Amendments

NSCC is proposing to amend the existing SLD Proposal by removing those provisions that, collectively, deal with the imposition of Regular Activity Liquidity Obligations, while maintaining the provisions relating to Special Activity Liquidity Obligations. The proposed Rule, as so revised, would thus impose only Special Activity Liquidity Obligations with respect to the heightened activity of Options Expiration Activity Periods (that is, the four days beginning with the Friday that precedes the monthly expiration date for stock options, and ending on the third settlement day following). Under the revised Proposal, as under the existing Proposal as it relates to Special Activity Liquidity Obligations, only those Unaffiliated Members or Affiliated Families among the top 30 whose activity during monthly Options Expiration Activity Periods generate liquidity needs in excess of NSCC's then available liquidity resources will be obligated to fund such additional amounts. That is, the allocation formula ratably applies the additional amount needed during the relevant Options Expiration Activity Period based upon the affected Member's Special Activity Peak Liquidity Exposure. To the extent that a Member's Special Activity Peak Liquidity Exposure is less than or equal to NSCC's then available liquidity resources, its share of the Special Activity Peak Liquidity Need will be zero.

In addition, under the revised SLD Proposal, as under the existing Proposal as it relates to Special Activity Liquidity Obligations, Unaffiliated Members and Affiliated Families, will be able to manage their exposures by making Special Activities Prefund Deposits where they project their own activity will increase their liquidity exposure. For example, if a Special Activity Liquidity Provider anticipates that its Special Activity Peak Liquidity Exposure at any time during a particular Options Expiration Activity Period will be greater than the amount calculated by NSCC, it can make an additional cash deposit to the Clearing Fund (in excess of its Required Deposit) that it designates as a ''Special Activity Prefund Deposit.'' However, to the extent that a Member fails to adequately prefund its activity, it may be subject to a Special Activity Liquidity Call in the same manner as provided in the existing Proposal.

With these changes, NSCC is removing those provisions of the existing SLD Proposal that generated most concern from commenters, while retaining those provisions that enable NSCC to collect additional liquidity resources to cover the heightened liquidity needs that arise during monthly Options Expiration Activity Periods. Every Unaffiliated Member and Affiliated Family among the top 30 whose activity causes a liquidity need in excess of NSCC's available liquidity resources will contribute ratably to such shortfall, so the Proposal fairly and equitably apportions the obligation among those Unaffiliated Members and Affiliated Families whose activity cause the need. The removal of those provisions relating to how commitments under the Credit Facility would be credited against the cash deposit obligations of Regular Activity Liquidity Providers render concerns about such allocation moot.

As indicated in NSCC's August 20, 2013 letter to the Commission, DTCC is separately establishing a standing member-based advisory group, the Clearing Agency Liquidity Council (''CALC''), as a forum for the discussion of liquidity and liquidity-related financing needs and trends. The CALC will initially focus on liquidity initiatives currently being considered by NSCC to address liquidity funding during periods of normal activity, including issues raised by commenters on the existing SLD Proposal. In response to commenters' more general concerns regarding NSCC's reliance on the Credit Facility and related refinancing risk, NSCC will review with the CALC the financing options available to NSCC to supplement the Clearing Fund as a liquidity resource, and the related costs of those options. Any new initiatives proposed as a result of the CALC review that require regulatory approval will be addressed in a separate filing.

Reporting. As noted in the previous amendment to the Rule Filing, NSCC agrees that Members have to be able to plan for their liquidity obligations. At the same time, NSCC also believes it is critical that Members understand the risks that their own activity presents to NSCC, and be prepared to monitor their activity and alter their behavior if they want to minimize the liquidity risk they present to NSCC. Accordingly, NSCC will make available to each Member a daily report showing the amount of liquidity NSCC would need in the event of the default of such Member. Separately, NSCC will provide, and continue to discuss with Special Activity Liquidity Providers, the reports regarding their Special Activity Liquidity Obligations as currently provided in the proposed Rule.

Finally, the amendment makes certain technical corrections and clarifies the time period for when Special Activity Liquidity Calls must be satisfied.

Implementation Timeframe. The SLD Proposal will be implemented on February 1, 2014. As a result, the first time that Members will be obligated to fund any Special Activity Supplemental Deposits will be for the Options Expiration Activity Period in February 2014. NSCC Risk staff will provide to affected Members their Special Activity Peak Liquidity Exposures for the relevant Special Activity Lookback Period by no later than January 15, 2014.

2. Statutory Basis

The revised SLD Proposal contributes to NSCC's goal of ensuring that NSCC has adequate liquidity resources to meet its settlement obligations notwithstanding the default of an Unaffiliated Member or Affiliated Family that poses the largest aggregate liquidity exposure over the relevant settlement cycle, by providing a mechanism for satisfying the peak liquidity needs that occur during monthly Options Expiration Activity Periods. As such, the Proposal is consistent with the requirements of the Exchange Act, and the rules and regulations thereunder applicable to NSCC, as well as with PFMI Principle 7 as described in the Rule Filing.

(B) Comments on Competition

NSCC believes that the revised SLD Proposal will not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Exchange Act. The Special Activity Liquidity Obligations imposed on Special Activity Liquidity Providers will ensure that all Unaffiliated Members and Affiliated Families whose activity present liquidity exposure to NSCC during periods of heightened activity during Options Expiration Activity Periods fairly and equitably contribute to NSCC's liquidity resources for settlement. NSCC believes the changes that have been made to the existing Proposal fully address the concerns raised by commenters, and eliminate any impact that the SLD Proposal might have on competition. To the extent there remains any perceived burden on competition caused by the Proposal, NSCC believes that such burden is not unreasonable or inappropriate to prevent systemic risk given that the Proposal contributes to the goal of financial stability in the event of Member default.

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

Written comments on the Proposed Rule Change, including NSCC's formal response to the written comments, have been filed with the Commission and are available on the Commission's Web site.

III. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the Proposed Rule Change, as modified by Amendment No. 3, is consistent with the Section 17A [12] or any other provision of the Exchange Act, or the rules and regulations thereunder. 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 email to *rule-comments@sec.gov*. Please include File No. SR–NSCC–2013–02 on the subject line.

Paper Comments

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

All submissions should refer to File No. SR–NSCC–2013–02. This file number should be included on the subject line if email 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 Web site (*http://www.sec.gov/rules/sro.shtml).* Copies of the submission, all subsequent amendments, all written statements with respect to the Proposed Rule Change, as amended, that are filed with the Commission, and all written communications relating to the Proposed Rule Change, as amended, 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 Web site 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 such filings also will be available for inspection and copying at the principal office of NSCC and on NSCC's Web site at *http://dtcc.com/legal/rule_filings/nscc/2013.php.*

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR–NSCC–2013–02 and should be submitted on or before November 5, 2013.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[13]

Kevin M. O'Neill,

Deputy Secretary.

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[12] 15 U.S.C. 78q–1.

[13] 17 CFR 200.30–3(a)(57).