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Via Electronic Delivery

December 23, 2013

Ms. Elizabeth M. Murphy
Secretary
U. S. Securities and Exchange Commission
100 F Street, NE,
Washington, DC 20549-1090

Re: Release No. 34-70946; File Number SR-NSCC-2013-12 - Proposed Rule Change to Provide Its Members with a Risk Management Tool that Would Enable Members to Monitor Trading Activity and Receive Notifications When Pre-Set Trading Limits are Reached

Dear Ms. Murphy,

The Financial Information Forum (FIF)[1] would like to take this opportunity to comment on SR-NSCC-2013-12 - Proposed Rule Change to Provide Its Members with a Risk Management Tool that Would Enable Members to Monitor Trading Activity and Receive Notifications When Pre-Set Trading Limits are Reached, ("DTCC Limit Monitoring Proposal"). Members of the FIF Back Office Committee and FIF Market Stability Working Group ("FIF") have reviewed the DTCC Limit Monitoring Proposal and believe additional discussion is required before making DTCC Limit Monitoring a mandated requirement for most NSCC member firms. As stated in the DTCC Limit Monitoring Proposal, "NSCC is proposing to require that the following NSCC Members register for DTCC Limit Monitoring: (1) any NSCC full service Member that clears for others; (2) any NSCC full service Member that submits transactions to NSCC's trade capture system either as a Qualified Special Representative ("QSR") or Special Representative, pursuant to Procedure IV (Special Representative Service); and (3) any NSCC full service Member that has established a 9A/9B relationship in order to allow another NSCC Member (either a QSR or Special Representative) to submit locked in [sic] trade data on its behalf."

FIF recommends additional discussion before DTCC Limit Monitoring is a required service. This approach is advisable for several reasons which are discussed in more detail below.

DTCC Limit Monitoring Will Have Incomplete Trading Information

FIF members are concerned with limitations to the DTCC Monitoring tool that will result in incomplete information regarding a true picture of a firm's trading activity. For example, clearing firms for agency broker dealers will not see the "DVP-side" of the trade. In other words, an agency broker dealer could have street-side trades that are perfectly hedged with offsetting transactions to clients that are

[1] FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the securities industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

processed via Institutional Delivery (ID). Without the inclusion of ID trades in DTCC Limit Monitoring, DTCC will have an incomplete picture of the true position associated with agency trading and may therefore trigger erroneous alerts, or fail to identify risk levels that should trigger alerts based on the entirety of activity.

Another issue with the trading activity available within the DTCC Limit Monitoring tool is the lack of options and futures data to accurately reflect hedged positions by market makers and other broker dealers. Similar concerns with inaccurate or missed alerting could result due to this gap.

Additionally, for trades not submitted for clearing via ACT or an exchange, the Executing Broker fields are not mandatory or validated as part of DTCC's Universal Trade Capture.[2] If a correspondent is not appropriately identified by these fields, their trading activity will not be accurately assigned to them. It is also possible for a clearing firm to execute trades on behalf of their correspondents. In those scenarios, the activity associated with a correspondent will not necessarily be captured. Also, trades processed via Correspondent Clearing are not available on a real-time basis.

Variable Benefit of Post-Trade Alerts Based On NSCC-Level Risk Entities

FIF members have varying opinions regarding the value of the DTCC Limit Monitoring Tool for the roughly 85% of NSCC members for which this requirement is proposed to be mandatory. Some firms believe post-trade alerts disseminated by DTCC would increase market stability by offering an added level of protection against clearing firm failure. Those firms see value in DTCC Limit Monitoring especially for firms that have an existing 9a/9b relationship at NSCC. Other firms question the benefits of having DTCC post-trade alerts as part of their risk platform regimes, having dedicated significant resources to risk management platforms based on pre-trade and other post-trade alerts. It is our understanding that DTCC Limit Monitoring would be a stand-alone service. While MQ messaging of the alerts themselves and some reporting would be available, the data underlying the alert mechanism would not be exportable to a firm's internal risk management platform.

Firms may not find value in clearing number or MPID level risk entities offered by DTCC Limit Monitoring given the sophistication of risk management tools that are capable of segmentation based on account number, desks, funds, strategies, etc. The front office's detailed knowledge of the counterparty, based on account numbers and subaccounts, connectivity, order entry path cannot be replicated with the back office/NSCC view of a trade. A firm's front office risk management tools likely already measure and monitor all of these details, and produce aggregated risk numbers using these details. The same level of detail is not possible from the data available to DTCC.

While the DTCC Limit Monitoring Proposal does reference granularity down to the "single trading desk," it is important to note that this level of granularity is only possible if a single trading desk has its own MPID/mnemonic. For firms that have a single MPID/mnemonic that covers many internal desks, getting an alert at that level will require significant effort in order to discover where the unusual activity is actually occurring in order to take appropriate action. Thus, the benefits of simply monitoring post-trade exposure at the clearing number level, especially for self-clearing firms with no correspondents, are limited given other risk management tools that are already in place at these firms.

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[2] UTC Common Trade FIX Input Format, See party roles defined in Tag 448 for Buy Entering/Executing Broker and Sell Entering/Executing Broker

Initial and Ongoing Effort is Significant

DTCC Limit Monitoring Proposal will require that:

> "Members shall review reports and alerts on an on-going basis and, as necessary, modify established parameters to reflect current trading activities within each of their Risk Entities. While Members will ultimately be responsible for ensuring that the parameters set on trading activity are appropriate, NSCC staff may, in its sole discretion, review trade activity reports and alerts, and may contact Members to discuss any concerns if, for example, the parameters set are not aligned with recent average trading activity."

The requirement to set and maintain post-trade limits imposes a significant burden on firms from an operational perspective. Pre-trade and post-trade limits are already in place at many firms; these firms may find no additional utility in the DTCC tool. In many cases, there will be no easy translation between what the firms already have and the DTCC tool. Firms necessarily have more granular information about their clients and accounts than is accessible through DTCC's data including access to hedged positions in other instruments.

While we recognize DTCC's efforts to reduce implementation time by pre-populating Risk Entities, Important Notice A#7743 makes it clear that, "Members are responsible for reviewing these pre-populated risk entities and ensuring that all their risk entities are established in accordance to their own business needs. Furthermore, DTCC will not pre-set any net-notional trading limit for Members. It is the responsibility of each Member using DTCC Limit Monitoring to ensure that each of their risk entities has a meaningful trading limit assigned within DTCC Limit Monitoring." Assigning meaningful trading limits is not a trivial task and will require input from operations, front office, risk and compliance staff. Sufficient implementation time would be required in order to establish meaningful limits that are consistent with a firm's existing risk management platforms. The DTCC Limit Monitoring tool should afford users the flexibility in determining the level of granularity with respect to risk entities. There is some FIF member concern that the tool is designed for aggregation of trades on the level of MPIDs and exchange mnemonics whereas firms may prefer to monitor their business only at the level of the NSCC clearing number. Further, the costs associated with the DTCC Limit Monitoring tool extend beyond initial set-up. Ongoing maintenance of trading limits including dialogue with NSCC staff regarding the reasonableness of such limits represents an additional, ongoing operations and compliance burden that may not be justified for the reasons described above.

FIF Recommendation: Further Discussion Required

DTCC Limit Monitoring as a mandatory requirement for participants is inconsistent with other risk management tools offered by self-regulatory organizations. For example, proposed SR-NYSE-2013-80, Proposal to Offer Risk Management Tools Designed to Allow Member Organizations to Monitor and Address Exposure to Risk, ' states:

> "the Exchange believes that the proposed rule change does not unfairly discriminate among the Exchange's member organizations because use of the risk management tools is optional and is not a prerequisite for participation on the Exchange."

Additionally in SR-BATS-2012-045, Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Expand the Availability of Risk Management Tools, BATS does not require its Members to use their risk management tool. However, it is important to note that DTCC is an industry-wide utility that impacts a broader range of participants than any one exchange.

Given the concerns identified by FIF, the DTCC Limit Monitoring Tool may not be appropriate or useful to all firms in its current form. Additional discussion is required before mandating adoption of the DTCC Limit Monitoring tool in order to consider additional firms' risk and business practices. FIF recommends additional discussion before mandating the use of the DTCC Limit Monitoring Tool. We believe opportunities exist for a phased implementation that will balance the needs of various business models in such a way that post-trade risk management tools are introduced that increase market stability in a well-considered manner.

FIF supports efforts to increase market stability and has been active in evaluating implementation issues with other market stability-focused proposals including the Market Access Rule and Regulation SCI. We look forward to working with DTCC to address the concerns outlined in this comment letter.

Regards,

Manisha Kimmel

Manisha Kimmel
Executive Director
Financial Information Forum

cc: The Honorable Mary Jo White, Chair
The Honorable Luis A. Aguilar, Commissioner
The Honorable Daniel J. Gallagher, Commissioner
The Honorable Kara M. Stein, Commissioner
The Honorable Michael S. Piwowar, Commissioner

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