Title: NSCC Alert! Notice of Filing of Proposed Rule Change to Adopt Intraday Volatility Charge and Eliminate Intraday Backtesting Charge.
Author: disoriented_llama
Created 2022-07-14 23:02:01 UTC
Permalink: /r/TheGloryHodl/comments/vz91wc/nscc_alert_notice_of_filing_of_proposed_rule/
Url: /r/Superstonk/comments/vz8hr4/nscc_alert_notice_of_filing_of_proposed_rule/

Linked Post Content:
[**SR-NSCC-2022-009**](https://www.sec.gov/rules/sro/nscc.htm#SR-NSCC-2022-009)

[34-95286](https://www.sec.gov/rules/sro/nscc/2022/34-95286.pdf)***Additional Materials:*** [Exhibit 5](https://www.sec.gov/rules/sro/nscc/2022/34-95286-ex5.pdf)

* [Submit Comments on SR-NSCC-2022-009](https://www.sec.gov/cgi-bin/ruling-comments)

Purpose

NSCC is proposing to enhance its Clearing Fund methodology by implementing an intraday volatility charge that may be collected by NSCC to mitigate the risks presented by Members' adjusted intraday Net Unsettled Positions and Net Balance Order Unsettled Positions ("Net Unsettled Positions") due to volatility in a Member's own trading activity ("volatility risk") that may occur between the collection of Members' Required Fund Deposits at the start of the day and the collection of Members' Required Fund Deposits at the start of the following Business Day.

In connection with the adoption of an intraday volatility charge and following an evaluation of the effectiveness of its margin methodology generally, NSCC is also proposing to eliminate the Intraday Backtesting Charge. NSCC would continue to maintain the Regular Backtesting Charge that is assessed on Members' start of day portfolio, as permitted by, and as described in, the Rules.

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.

The Required Fund Deposit serves as each Member's margin.

The objective of a Member's Required Fund Deposit is to mitigate potential losses to NSCC associated with liquidating a Member's portfolio in the event NSCC ceases to act for that Member ("default").

NSCC currently excludes long Net Unsettled Positions in Family-Issued Securities from the calculation of the VaR Charge and instead uses a haircut-based calculation for these positions ("FIS charge").

Adjusted Intraday Net Unsettled Positions:

In calculating the volatility charge based on Members' intraday Net Unsettled Positions, NSCC would adjust the Net Unsettled Positions by excluding any position for which shares had either been delivered to the CNS System or received by the Member from the CNS System to satisfy all or any portion of that position. **NSCC believes it would be appropriate to assume, for purposes of this calculation, that positions for which the shares have been delivered and received would settle at the end of the day. By adjusting the intraday Net Unsettled Positions to exclude these positions, the calculation of the intraday volatility charge would be more effectively driven by any significant intraday changes to the volatility risks presented by Members' adjusted intraday Net Unsettled Positions.**

NSCC would retain the discretion to lower this threshold if it determines that a reduction in this threshold is appropriate to mitigate risks to NSCC, for example during volatile market conditions or market events

that cause increases in trading volume, or when NSCC believes a lower threshold is appropriate to mitigate risks presented by Members whose portfolios may present relatively greater risks to NSCC on an overnight basis. In circumstances when NSCC determines it is appropriate to reduce the threshold, the reduced threshold would apply to all Members.

>NSCC is proposing to amend the Rules to state that an intraday volatility charge would not be collected if (a) trades submitted later in the day would offset trades submitted earlier in the day, such that the thresholds would not have been met if such activity had been submitted earlier in the day, or (b) the threshold was met due to the submission of an erroneous trade that can be corrected.
>
>As stated above, NSCC would monitor volatility in 15-minute increments between the collection of start of day Required Fund Deposits and end of day settlement. When the threshold is exceeded during normal market conditions earlier in the trading day, **NSCC would typically not collect an intraday volatility charge until later in the day when Members have had an opportunity to submit trading activity that would be expected to offset trades submitted earlier in the day that caused the thresholds to be met. Offsetting trading activity may be submitted to NSCC later in the day in connection with Members' business model or trading practices. Additionally, a system issue or other error could cause a delay in the submission of activity. NSCC believes that, in circumstances when later submitted activity offsets earlier submitted activity, whether that is due to Member's normal business practices or operational delays, an intraday volatility charge would not be necessary because the risk presented by the temporary increase in volatility would be expected to be mitigated by other clearing activity or corrected submissions that is submitted later in the day.**

The proposed intraday volatility charge would provide NSCC with an important tool to address significant changes in the volatility risks presented to NSCC, **such that these risks presented by Members' adjusted intraday Net Unsettled Positions are no longer adequately covered by the Required Fund Deposit collected at the start of day.**

Proposed Intraday Volatility Charge and other Margin Charges

NSCC has rarely assessed a special charge, but believes this "special charge" continues to be a valuable risk management tool that would allow it to collect additional amounts in the event of unpredictable, unusual or sudden market events that present additional risks to NSCC that its margining methodology is not able to predict. **While the proposed intraday volatility charge would provide NSCC with an additional tool to address events that cause Members' positions to increase the levels of volatility risks, it will be used only when it is triggered by the applicable calculation. When the intraday volatility charge is triggered, a special charge would not also be required from a Member to address the same volatility risks. Likewise, if NSCC is exposed to volatility risks that are not captured by the intraday volatility charge calculation or by other available margin charges, NSCC would have the ability to mitigate those risks through the collection of a special charge.**

NSCC has determined that the current methodology for calculating the Intraday Backtesting Charge makes an unreasonable assumption that NSCC would cease to act for a Member that has paid all of its intraday margin requirements.

Specifically, NSCC believes that the proposed intraday volatility charge would effectively mitigate the risks related to intraday increases in volatility and would address the increased risks NSCC may face related to liquidating a Member's portfolio following that Member's default.

NSCC's proposed change to introduce an intraday volatility charge is designed to more effectively address the risks presented by significant intraday changes to market price volatility or a Member's portfolio of Net Unsettled Positions. NSCC believes the addition of the intraday volatility charge would enable NSCC to assess a more appropriate level of margin that accounts for increases in these volatility risks that may occur intraday. This proposed change is designed to assist NSCC in maintaining a risk based margin system that considers, and produces margin levels commensurate with, the risks of portfolios that experience significant volatility on an intraday basis.

The Required Fund Deposits are made up of risk-based components (as margin) that are calculated and assessed daily to limit NSCC's credit exposures to Members. NSCC's proposed change to introduce an intraday volatility charge is designed to more effectively address the risks presented by significant intraday changes to market price volatility or a Member's portfolio of Net Unsettled Positions. NSCC believes the addition of the intraday volatility charge would enable NSCC to assess a more appropriate level of margin that accounts for increases in these volatility risks that may occur intraday.

When the proposal results in a larger Required Fund Deposit, **the proposed change could burden competition for Members that have lower operating margins or higher costs of capital compared to other Members. However, the increase in Required Fund Deposit would be in direct relation to the specific risks presented by each Member's adjusted intraday Net Unsettled Positions**, and each Member's Required Fund Deposit would continue to be calculated with the same parameters and at the same confidence level for each Member.

As stated above, the proposed intraday volatility charge is designed to address the risks of increases in market price volatility or other changes to a Member's portfolio on an intraday basis that could increase the costs to NSCC of liquidating a Member portfolio in the event of the Member's default. Specifically, the proposed intraday volatility charge would allow NSCC to collect sufficient financial resources to cover its exposure that it may face increased costs in liquidating positions that experience intraday volatility that is not captured by the start of day volatility charge or the volatility portion of the MRD charge.

The proposed intraday volatility charge would also enable NSCC to produce margin levels more commensurate with the risks and particular attributes of each Member's portfolio.

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

As described above, NSCC believes the introduction of the intraday volatility charge would allow NSCC to employ a risk-based methodology that would **address the increased risks NSCC may face when intraday volatility changes a Member's portfolio such that the volatility charge and MRD charge collected at the start of the day no longer addresses the risks these positions present to NSCC. Therefore, the proposed change would better limit NSCC's credit exposures to Members**, necessary and appropriate in furtherance of the requirements of Rule 17Ad-22(e)(4)(i) and Rule 17Ad-22(e)(6)(i) under the Act