SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-100048; File No. SR-NSCC-2024-002)

May 2, 2024

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving of Proposed Rule Change to Accommodate a Shorter Standard Settlement Cycle and Make Other Changes

I. INTRODUCTION

On March 8, 2024, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-NSCC-2024-002 ("Proposed Rule Change") pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder.[2] The Proposed Rule Change was published for comment in the Federal Register on March 21, 2024.[3] The Commission has received no comments on the Proposed Rule Change. For the reasons discussed below, the Commission is approving the Proposed Rule Change.

II. BACKGROUND

NSCC provides central counterparty services, including clearing, settlement, risk management, and a guarantee of completion, for virtually all broker-to-broker trades involving equity securities, corporate and municipal debt securities, and certain other securities.

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

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 99750 (Mar. 15, 2024), 89 FR 20267 (Mar. 21, 2024) (File No. SR-NSCC-2024-002) ("Notice of Filing").

NSCC's Rules[4] consider the current standard settlement cycle of two business days after the trade date ("T+2") as "regular way" settlement, and as such, are currently designed to accommodate this settlement cycle. The T+2 settlement cycle has been in place since 2017 when the Commission amended Exchange Act Rule 15c6-1(a)[5] to shorten the standard settlement cycle from three business days after the trade date, in an effort to reduce credit, market, and liquidity risk, and as a result, reduce systemic risk for U.S. market participants.[6] In an effort to further promote investor protection, reduce risk in the financial system, and increase operational and capital efficiency in the securities market, the Commission has adopted a rule change shortening the standard settlement cycle from T+2 to one business day after the trade date ("T+1") ("Shortened Settlement Cycle"), with a compliance date of May 28, 2024.[7]

NSCC is proposing to amend the Rules to be consistent with this upcoming industry-wide move to the Shortened Settlement Cycle. However, NSCC states that the

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4 Capitalized terms not defined herein are defined in the Rules and Procedures of NSCC ("Rules"), available at https://www.dtcc.com/legal/rules-and-procedures.aspx.

5 Exchange Act Rule 15c6-1(a), as amended in 2017, required, with certain exceptions, that a broker or dealer shall not effect or enter into a contract for the purchase or sale of a security (other than an exempted security, government security, municipal security, commercial paper, bankers' acceptances, or commercial bills) that provides for payment of funds and delivery of securities later than the second business day after the date of the contract unless otherwise expressly agreed to by the parties at the time of the transaction. See 17 CFR 240.15c6-1(a).

6 See Securities Exchange Act Release No. 80295 (Mar. 22, 2017), 82 FR 15564 (Mar. 29, 2017).

7 See Securities Exchange Act Release No. 96930 (Feb. 15, 2023), 88 FR 13872 (Mar. 6, 2023) (S7-05-22) (Shortening the Securities Transaction Settlement Cycle) ("T+1 Adopting Release").

core functions of NSCC will generally continue to operate in the same way in the Shortened Settlement Cycle.[8]

III. DESCRIPTION OF THE PROPOSED RULE CHANGE

NSCC proposes changes to address two categories of rules: (A) rules that have timeframes and/or cutoff times that are tied to the standard settlement cycle, and (B) rules affected by process changes being made to accommodate the Shortened Settlement Cycle. In general, these provisions either directly track the timeframe and/or Settlement Date of the standard settlement cycle, address non-standard settlement cycles, or provide for timeframes and/or cutoff times that are connected to or are affected by the timing of the standard settlement cycle and would need to be changed to accommodate the Shortened Settlement Cycle. The proposed changes to accommodate the upcoming move to the Shortened Settlement Cycle would impact the following NSCC Rules: Definitions (Rule 1 and Procedure XIII); Supplemental Liquidity Deposits (Rule 4A); Trade Comparison and Recording (Procedure II); the Special Representative Service (Procedure IV); the Continuous Net Settlement ("CNS") System and CNS Accounting Operation (Rule 11 and Procedure VII); the Balance Order Accounting Operation (Procedure V); the Foreign Security Accounting Operation (Procedure VI); the ACATS Settlement Accounting Operation (Procedure XVIII); and the NSCC Guaranty (Addendum K).[9] These proposed changes are discussed below.

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8 See Notice of Filing, supra note 3, at 20268.

9 For more detailed discussion of each specific edit to the Rules, please refer to the Notice of Filing. See id. at 20268–73 (describing specific changes to each of the relevant sections of the Rules).

NSCC is also proposing other technical changes and corrections to the Rules that are not required to accommodate the move to the Shortened Settlement Cycle but would provide additional clarity and accuracy in the Rules.[10]

A. Changes to Timeframes and/or Cut-off Times Tied to the Standard Settlement Cycle

The Rules contain certain provisions that refer to "T+2" as the timeframe and Settlement Date of the standard settlement cycle and consider this as "regular way" settlement. These provisions would be updated to reflect the change to "T+1" and that T+1 would be Regular Way settlement under the Shortened Settlement Cycle.[11] Similarly, a number of provisions in the Rules refer to timeframes and/or Settlement Dates that are intended to be shorter/earlier or later, as applicable, than the timeframe and/or Settlement Date of the standard settlement cycle. These provisions also must be changed to accommodate the Shortened Settlement Cycle.[12] Likewise, the length and timing of certain cutoff times are based on either a standard settlement cycle or a non-standard settlement cycle. Therefore, when the timeframe and Settlement Date of the

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[10] See id. at 20269–72 (Subparagraphs B, C (concerning Index Receipts (Procedure II.F), E (concerning Consolidated Trade Summary (Procedure VII.B)), and G). See also infra note 9.

[11] See id. (Subparagraphs A, C (concerning Equity and Listed Debt Securities (Procedure II.B), Debt Securities (Procedure II.C), Index Receipts (Procedure II.F), Reports and Output (Procedure II.G)), E (concerning Consolidated Trade Summary (Procedure VII.B)), and G).

[12] See id. (Subparagraphs B, E (concerning CNS System (Rule 11), Consolidated Trade Summary (Procedure VII.B), Controlling Deliveries to CNS (Procedure VII.D)), F, H, and I).

standard settlement cycle and nonstandard settlement cycle are changed, these cutoff times would also need to be revised accordingly.[13]

B. Changes to Process Relating to the Shortened Settlement Cycle

Some of the Rules would require process changes to accommodate the Shortened Settlement Cycle, as described below.[14]

Changes to Procedure II.F. – Index Receipts (Exchange-Traded Funds).

NSCC proposes to amend its creation/redemption input and settlement procedures for exchange-traded funds ("ETF(s)," also referred to as "index receipts" in the Rules). Aside from proposed changes to reflect that T+1 would be Regular Way settlement under the Shortened Settlement Cycle, NSCC also proposes additional amendments to allow for the creation and redemption of index receipts for same-day settlement. NSCC would add new rule language to allow Index Receipt Agents to include an additional cash collateral amount ("Index Receipt Cash Collateral Amount") for same-day settling index receipts, which would be subject to limits established by NSCC.[15] NSCC would also report any necessary adjustments to the Index Receipt Cash Collateral Amount based on end of day values ("Collateral Cash Adjustments") for non-guaranteed payment order or money settlement between the Members on the next business day to "true-up" the Index Receipt

13 See id. (Subparagraphs C (concerning Debt Securities (Procedure II.C)), and E (concerning CNS System (Rule 11), Consolidated Trade Summary (Procedure VII.B), CNS Dividend Accounting (Procedure VII.G)).

14 See infra note 9.

15 NSCC would initially establish this limit at 3% of the contract settlement amount of the order, which would be priced based on the prior night's net asset value. NSCC will monitor the use and overall collateral buffer amounts over time and may adjust this threshold as needed. Changes to these limits would be announced to Members by Important Notice. See Notice of Filing, supra note 3, at 20269.

Cash Collateral Amount amounts. In addition, NSCC would amend the procedure to provide that any creation and redemption instructions for same-day settling index receipts that exceed the Index Receipt Cash Collateral Amount limitations established by NSCC would be rejected.

NSCC states that these proposed rules for same-day creation/redemption are designed to allow Authorized Participants to cover short positions in ETF shares.[16] The Rules currently allow Index Receipt Agents to elect a Settlement Date of T+1 or later for ETFs. Under the current T+2 settlement cycle, Authorized Participants may address short positions through the submission of creations/redemptions for next-day settlement (i.e., T+1). However, under the Shortened Settlement Cycle, Authorized Participants may need to submit creations/redemptions on a same-day basis to cover short positions scheduled for settlement on T+1.[17] NSCC states that in the absence of the proposed same-day cycle, Authorized Participants would need to process this activity on an ex-clearing basis, which would result in excess capital expenses.[18] As stated above, the proposed rule change would also provide Index Receipt Agents with the option to require an additional Index Receipt Cash Collateral Amount as part of the creation or redemption to act as a "buffer" and account for potential market moves in the ETF or underlying components between the submission of the creation or redemption earlier in the day (based on the prior day's closing price which aligns with net asset value) and the

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16 See id.

17 Currently, NSCC allows for same-day settling cash trades in the secondary market, even in the T+2 environment. The proposed rule change would allow same-day settling trades in the primary market.

18 See Notice of Filing, supra note 3, at 20270.

settlement of such obligations at the end of the day during NSCC's end-of-day settlement cycle. These same-day create/redeem transactions would be subject to NSCC's risk management, consistent with its risk management of other ETF create/redeem orders.

Changes to Procedure II.H. – Consolidated Trade Summaries.

NSCC proposes to update its procedures concerning Consolidated Trade Summaries to reflect processes under the Shortened Settlement Cycle. NSCC's Consolidated Trade Summary System defines the expected settlement path for each transaction received by the Universal Trade Capture ("UTC") service as CNS or non-CNS eligible.[19] NSCC would make changes regarding the reporting of Balance Order transactions under the Shortened Settlement Cycle to state, more generally, that each Consolidated Trade Summary would include Receive and Deliver instructions to each Member to settle directly with its counterparties. NSCC states that the proposed change is intended to reflect that the three Consolidated Trade Summaries made available by NSCC will not include the same information on all three reports (e.g., the first two cycles would report next-day settling Balance Order transactions while the third cycle would report same-day settling Balance Order transactions trades).[20]

Changes to Procedure IV – Special Representative Service.

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19 NSCC's CNS system is NSCC's core netting, allotting, and fail-control engine in which each security is netted to one position per Member with NSCC as its central counterparty. See id. See also Rule 11, supra note 4.

20 See Notice of Filing, supra note 3, at 20270.

NSCC proposes to delete a provision related to the Correspondent Clearing Service,[21] which states that transactions (other than cash, next day fixed-income transactions, or cash equity transactions received after the Corporation's designated cut-off time) which are accepted by NSCC are then entered into the Balance Order Accounting Operation or CNS Accounting Operation which, when processed through the Balance Order Accounting Operation or CNS Accounting Operation, effectively net the Special Representative out of the original trade. NSCC proposes to delete this statement because (i) under the Shortened Settlement Cycle, there will no longer be next day fixed-income transactions (i.e., such transactions will be Regular Way) and (ii) the statement, more generally, is not a rule or procedural requirement concerning the Correspondent Clearing Service, but rather, is simply a description of an expected outcome of the service.[22]

Changes to Procedure VII – CNS Accounting Operation.

NSCC proposes changes to Rule 11 and Procedure VII concerning projection reports. Under the Shortened Settlement Cycle, the CNS projection report that will be issued on each Settlement Date will no longer include next day settling positions because

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21 NSCC's Special Representative Service allows Members that are authorized by one or more other persons to act on their behalf to submit transactions in securities to NSCC. See id. As part of this, the Correspondent Clearing Service permits Members to clear and settle transactions executed for them by other Members acting as their Special Representative to accommodate (i) a Member with multiple affiliate accounts who wishes to move a position resulting from an "original trade" in the process of clearance from one affiliate account to another or(?) (ii) a Member that relies on its Special Representative to execute a trade in any market on its behalf to enable the resulting position to be moved from the Special Representative to that Member. Id.; see also Procedure IV, supra note 4.

22 See Notice of Filing, supra note 3, at 20270.

it will only cover obligations for a one-day settlement cycle and will be issued during early morning hours on the Settlement Date. NSCC proposes to revise Section 4 of Rule 11 to remove rule text related to positions or obligations due to settle on "the next settlement day." NSCC proposes to delete subsection D.1. of Procedure VII[23] concerning the CNS projection report and other references to it throughout Procedure VII. Under the Shortened Settlement Cycle, the CNS projection report would no longer be used for the exemption process because it will be distributed at 2:00 AM ET on Settlement Date, after the night cycle completes.[24] However, NSCC would clarify in the newly renumbered Section D.1(a) that Members may use other position reporting made available by NSCC to set exemptions and control deliveries.

NSCC also proposes changes to Section H of Procedure VII describing the timeline of actions that must occur in connection with the processing of eligible corporate reorganization events to align with the Shortened Settlement Cycle. While the processing of mandatory reorganizations occurs automatically, the processing of voluntary reorganizations through the CNS Reorganization Processing System requires certain actions to be taken by both NSCC and Members with positions in the subject security during the period of time leading up to and following the expiration of the event. This period of time is referred to in the Rules as the "protect period" and is defined by reference to the expiration date, or "E," of a voluntary reorganization (e.g., "E+1" is one day past the expiration date of the event). NSCC would remove references to the current

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23 Section D of Procedure VII describes the process for Members to control the delivery of securities to satisfy short positions in NSCC's CNS system. See id. at 20271.

24 See id.

standard two business day protect period and replace them with references to the one business day protect period anticipated under the Shortened Settlement Cycle. NSCC also proposes to update the processing timeframes for voluntary reorganizations to reflect the new timeframes under the Shortened Settlement Cycle.[25]

IV. DISCUSSION AND COMMISSION FINDINGS

Section 19(b)(2)(C) of the Act[26] directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. After careful review of the Proposed Rule Change, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC. In particular, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act.[27]

A. Consistency with Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of

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25 For specific changes in processing timeframes for voluntary reorganizations, please refer to the Notice of Filing. See id. at 20272.

26 15 U.S.C. 78s(b)(2)(C).

27 15 U.S.C. 78q-1(b)(3)(F).

securities transactions.[28] The Commission believes that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act for the reasons stated below.

As discussed in Part II, the Commission has adopted a rule change shortening the standard settlement cycle from T+2 to T+1, with a compliance date of May 28, 2024. The Proposed Rule Change would align NSCC's Rules with this upcoming industry-wide move and update NSCC's Rules to accommodate anticipated processing timelines under a Shortened Settlement Cycle. The Proposed Rule Change would modify the timeframes, cutoff times, and associated outputs for certain processes related to NSCC's clearance and settlement operations for a T+1 environment, including Rules related to: Definitions (Rule 1 and Procedure XIII); Supplemental Liquidity Deposits (Rule 4A); Trade Comparison and Recording (Procedure II); the Special Representative Service (Procedure IV); the Continuous Net Settlement ("CNS") System and CNS Accounting Operation (Rule 11 and Procedure VII); the Balance Order Accounting Operation (Procedure V); the Foreign Security Accounting Operation (Procedure VI); the ACATS Settlement Accounting Operation (Procedure XVIII); and the NSCC Guaranty (Addendum K).

The Commission has reviewed and analyzed the filing materials, and agrees that these changes are necessary for NSCC to clear and settle transactions promptly and accurately under the Shortened Settlement Cycle. As described in Part III.A, the changes to update and modify timeframes and cutoff times to reflect a Shortened Settlement Cycle should help ensure that NSCC's operations and Rules are consistent with the Shortened Settlement Cycle. Similarly, the changes to modify existing processes such that they occur within the Shortened Settlement Cycle, as described in Part III.B, should also help

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[28] 15 U.S.C. 78q-1(b)(3)(F).

ensure that NSCC's functions are consistent with and accommodate the Shortened Settlement Cycle. Therefore, the Commission finds that the Proposed Rule Change should support NSCC's ability to provide prompt and accurate clearance and settlement of securities transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.[29] Regarding the technical changes and corrections to the Rules not required to accommodate the move to T+1, as also described in Part III, the Commission finds these changes also consistent with Section 17A(b)(3)(F) of the Act[30] because the technical updates would provide additional clarity and accuracy in the Rules for Members that rely on them.

V. CONCLUSION

On the basis of the foregoing, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A of the Act[31] and the rules and regulations promulgated thereunder.

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[29] Id.

[30] Id.

[31] 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act[32] that proposed rule change SR-NSCC-2024-002, be, and hereby is, APPROVED.[33]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[34]

J. Matthew DeLesDernier,

Deputy Secretary.

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32 15 U.S.C. 78s(b)(2).

33 In approving the Proposed Rule Change, the Commission considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

34 17 CFR 200.30-3(a)(12).