

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72657; File No. SR-NSCC-2014-07)

July 23, 2014

Self-Regulatory Organizations; National Securities Clearing Corporation; Order
Approving Proposed Rule Change to Implement a New Scorecard Feature to the Mutual
Fund Profile Service

On May 30, 2014, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-NSCC-2014-07 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 June 12, 2014.³ The Commission did not receive any comments on the proposed rule change. This order approves the proposed rule change.

I. Description

NSCC is adding a section to Rule 52.D of its Rules & Procedures⁴ to implement a new scorecard feature to its Mutual Fund Profile Service (“MFPS”). The purpose of the new scorecard feature is to encourage more reliable data in MFPS.

MFPS is a data repository that provides members with a way of transmitting and receiving information about funds and other pooled investment vehicles (“Funds”).⁵

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 72344 (June 6, 2014), 79 FR 33793 (June 12, 2014) (SR-NSCC-2014-07) (“Notice”).

⁴ Rule 52.D is titled, “Mutual Fund Profile Services.”

⁵ See Securities Exchange Act Release No. 37171 (May 8, 1996), 61 FR 24343 (May 14, 1996) (SR-NSCC-96-04) (establishing MFPS); Securities Exchange Act Release No. 40614 (October 28, 1998), 63 FR 59615 (November 4, 1998) (SR-NSCC-98-09) (increasing the information available on MFPS); Securities

MFPS includes a database, the “security issue profile database,” which contains Fund information, including, security ID number, security name, fee structure, investment objectives, breakpoint schedule data, and blue sky eligibility (collectively, “Security Issue Data”).⁶ Generally, Fund members populate the database (“Data Providers”)⁷ and the Funds’ distribution partners receive and use the information in the database (“Data Receivers”).

Over the last several months, Data Receivers have expressed concern to NSCC that the Security Issue Data appears to be unreliable because of certain discrepancies. For example, the Security Issue Data does not always match information in the Data Providers’ public filings. As a result, Data Receivers requested that NSCC implement a mechanism to encourage Data Providers to provide more reliable Security Issue Data.

To respond to these concerns and encourage Data Providers to provide more reliable data, NSCC is amending Rule 52.D of its Rules & Procedures⁸ to implement a new scorecard feature to MFPS. NSCC will score each Data Provider based on the types and number of discrepancies between MFPS data and other information, such as, for example, the Data Provider’s public filings (“Discrepancies”). NSCC will share this

Exchange Act Release No. 59321 (January 30, 2009), 74 FR 6933 (February 11, 2009) (SR-NSCC-2008-08) (adding an agreement that requires fund members to have taken reasonable steps to validate the accuracy of the data they submit to the MFPS).

⁶ See Notice, *supra* note 3, 79 FR at 33793.

⁷ Data Providers also include a Fund’s principal underwriter or other entities authorized to process transactions on behalf of the Funds.

⁸ Rule 52.D is titled “Mutual Fund Profile Services.”

score with both the Data Providers and Data Receivers through a scorecard, which NSCC will distribute regularly.

NSCC will score Data Providers in the following ways. NSCC will issue a perfect score to a Data Provider who either has no Discrepancies or who addressed all of its Discrepancies and will reduce a score if a Data Provider fails to take action on its Discrepancies. NSCC will regularly recalculate both the Data Providers' score as well as an industry average score as new Discrepancies are identified or addressed.

Scorecards distributed to Data Providers will contain: (i) the Data Provider's score; (ii) the Data Provider's number of Discrepancies by category; and (iii) the combined average score of all Data Providers. Data Providers will not see individual, numerical scores issued to other Data Providers nor other Data Providers' Discrepancies.

Scorecards distributed to Data Receivers will contain: (i) each Data Provider's score; (ii) each Data Provider's number of Discrepancies by category; and (iii) the combined average score of all Data Providers.

NSCC's rule will provide that NSCC makes no representation or warranty with respect to the value or usefulness of any score or scorecard, nor will NSCC be subject to any damages or liabilities whatsoever with respect to any person's use of or reliance upon any score or scorecard. According to NSCC, it is including this information because the scores are based solely on action or inaction of Data Providers.⁹

In addition, NSCC's rule will state that all information contained in the scorecards is copyrighted and any form of copying, other than for each NSCC member's personal reference, without the express written permission of NSCC, is prohibited, and further

⁹ See Notice, supra note 3, 79 FR at 33793-4.

distribution or redistribution of the scorecard or any information contained therein by any means or in any manner is strictly prohibited. According to NSCC, it is including the information because the scorecards are intended solely for members' use and are not intended to be made public.¹⁰

II. Discussion

Section 19(b)(2)(C) of the Act¹¹ directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization.

The Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act,¹² which requires that the rules of a clearing agency be designed to, in part, foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions. NSCC's proposed rule is designed to foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions because it is designed to encourage reliable and accurate data about securities.

¹⁰ See Notice, supra note 3, 79 FR at 33794.

¹¹ 15 U.S.C. 78s(b)(2)(C).

¹² 15 U.S.C. 78q-1(b)(3)(F).

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act¹³ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR-NSCC-2014-07) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁴

Kevin M. O'Neill
Deputy Secretary

¹³ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁴ 17 CFR 200.30-3(a)(12).