

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76112; File No. SR-NSCC-2015-005)

October 8, 2015

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Permit Trades in Eligible Fixed Income Securities Scheduled to Settle on Day After Trade Date To Be Processed for Settlement at National Securities Clearing Corporation

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”) and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that on October 7, 2015, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by NSCC. NSCC filed the proposed rule change pursuant to Section 19(b)(2)<sup>3</sup> of the Act. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change consists of amendments to NSCC’s Rules & Procedures (“Rules”) in order to permit trades in fixed income securities (corporate and municipal bonds, and unit investment trusts, collectively “CMU”) that are scheduled to settle on the day after trade date (“T+1”) to settle either through its Continuous Net Settlement (“CNS”) system, as described below, or through its Balance Order

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(2).

Accounting Operation on a trade-for-trade basis, as described below, when eligible for settlement through these services.<sup>4</sup>

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 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. Purpose

CMU transactions that are effected in the over-the-counter markets and submitted to NSCC directly by Members on a bilateral basis are processed through NSCC's Real Time Trade Matching ("RTTM") platform. Within RTTM, the buy and sell sides of a transaction are validated and matched, resulting in a compared trade that is reported to Members. This process is called "trade comparison."

Today, with the exception of CMU trades that are submitted to NSCC to settle on a timeframe that is shorter than T+2,<sup>5</sup> CMU trades submitted to NSCC through RTTM are first compared within RTTM, and then are processed into NSCC's Universal Trade Capture ("UTC") system, where they are checked for eligibility for settlement either

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<sup>4</sup> Terms not defined herein are defined in the Rules, available at [http://dtcc.com/~//media/Files/Downloads/legal/rules/nsccl\\_rules.pdf](http://dtcc.com/~//media/Files/Downloads/legal/rules/nsccl_rules.pdf).

<sup>5</sup> The settlement timeframe of a trade, i.e. when the trade will settle relative to the trade date, is determined by the counterparties to that trade, and is indicated on the trade record when the trade is submitted to NSCC.

through NSCC's CNS system<sup>6</sup> or through its Balance Order Accounting Operation on a trade-for-trade basis.<sup>7</sup> These CMU trades, those that are scheduled to settle on a T+2 or longer timeframe, are then processed for settlement through the settlement service for which they are eligible, i.e. either the CNS system or the Balance Order Accounting Operation on a trade-for-trade basis. If a CMU trade is not eligible for settlement through either CNS or the Balance Order Accounting Operation, or if it is marked as "comparison-only" when it is submitted to NSCC, it is only processed for trade comparison through RTTM and then it must settle away from NSCC.

Today, all CMU trades submitted to NSCC through RTTM that are scheduled to settle on T+1 are automatically processed as comparison-only in RTTM, and must settle away from NSCC. T+1 CMU trades are processed this way because, historically, NSCC's systems were not able to adequately risk manage CMU trades that settled on this shortened timeframe. NSCC is proposing to amend its Rules so that, following trade comparison through RTTM, T+1 CMU trades would be processed into UTC, where they would be checked for eligibility to settle through either CNS or the Balance Order

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<sup>6</sup> CNS and its operation are described in Rule 11 and Procedure VII. Rules, supra note 4. To be eligible for CNS settlement, a transaction must be in a security that is eligible for book-entry transfer on the books of The Depository Trust Company, and must be capable of being processed in the CNS system; for example, securities may be ineligible for CNS processing due to certain transfer restrictions (e.g., 144A securities) or due to the pendency of certain corporate actions.

<sup>7</sup> The Balance Order Accounting Operation is described in Procedure V. Rules, supra note 4. CMU trades that are processed through the Balance Order Accounting Operation are processed on a trade-for-trade basis, as described in Section B of Procedure V, such that Receive and Deliver Orders, as defined in the Rules, are created instructing the counterparties to the transaction to deliver or receive a quantity of securities to or from their counterparty to that transaction. These transactions are not netted and are not subject to NSCC's risk management measures, as NSCC's central counterparty guarantee does not attach to these trades.

Accounting Operation on a trade-for-trade basis. If eligible, these CMU trades would settle through the settlement service for which they are eligible, i.e. either the CNS system or the Balance Order Accounting Operation on a trade-for-trade basis.

Pursuant to Addendum K of the Rules, NSCC guarantees the completion of CNS settling trades that have reached the later of midnight of T+1 or midnight of the day they are reported to Members, and guarantees the completion of shortened process trades, such as same-day and next-day settling trades, upon comparison or trade recording processing.<sup>8</sup> Therefore, for those T+1 CMU trades that are eligible for settlement through CNS, NSCC would guarantee the completion of these trades upon comparison or trade recording processing. T+1 CMU trades that settle through CNS would be subject to all appropriate risk management measures and margining, pursuant to the existing risk management methodology and policies and procedures, including the Specified Activity charge component of its Clearing Fund charges, which applies to trades settling at NSCC on a shortened processing cycle.<sup>9</sup> NSCC estimates that CMU trades that are designated to settle on T+1 and would be eligible to settle through CNS represent less than half of a percent of all CMU trades processed at NSCC, and less than 2% of the total value of all CMU trades processed at NSCC.<sup>10</sup> In order to implement this proposed rule change,

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<sup>8</sup> NSCC guarantees the completion of trades that settle through CNS pursuant to Addendum K of the Rules. Rules, supra note 4.

<sup>9</sup> The components of NSCC's Clearing Fund are described in Procedure XV, and the Specified Activity charge is described in Section I(A)(1)(g) for trades settling through CNS. Rules, supra note 4.

<sup>10</sup> Based on data from the first quarter of 2015, an approximate daily average of 45,000 CMU trades are processed at NSCC, with an approximate total daily value of an average of \$8.3 billion. Of the approximate daily average of 45,000 CMU trades processed at NSCC, an approximate daily average of 200 CMU trades are designated to settle on T+1 and are in securities that are eligible for settlement in

NSCC would amend Procedure II (Trade Comparison and Recording Service). In particular, these amendments would provide that CMU T+1 transactions would be handled in the same manner as CMU T+2 trades and trades submitted for regular way (or T+3) settlement. Procedure II would also be amended to remove reference to CMU T+1 transactions from the section that identifies those trades that are accepted by NSCC for comparison-only processing.

Pending Commission approval of this proposed rule change, Members would be advised of the implementation date through issuance of an NSCC Important Notice

## 2. Statutory Basis

Section 17A(b)(3)(F) of the Act requires, in part, that NSCC's Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and to protect investors and the public interest.<sup>11</sup> By permitting additional, eligible transactions to settle through CNS or the Balance Order Accounting Operation, and receive the benefit of NSCC's settlement services, including, in the case of CNS, the central counterparty trade guarantee, the proposal would offer protection to investors and the public interest by mitigating its Members' settlement risk and counterparty risk with respect to those transactions. Therefore, NSCC believes the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions by

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CNS. Of the approximate daily value of an average of \$8.3 billion in CMU trades processed at NSCC, CMU trades that are designated to settle on T+1 and are in securities that are eligible for settlement in CNS have an approximate total daily value of an average of \$145 million. The average daily CMU transaction volume is less than 1% of NSCC's overall daily volume.

<sup>11</sup> 15 U.S.C. 78q-1(b)(3)(F).

reducing these risks, consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), cited above.

(B) Clearing Agency's Statement on Burden on Competition

NSCC does not believe that the proposed rule changes would have any impact on competition because the proposal would apply equally to all NSCC Members that submit CMU trades through NSCC's RTTM service.

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

NSCC has not received any written comments relating to this proposal. NSCC will notify the Commission of any written comments received by NSCC.

III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. 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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2015-005 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NSCC-2015-005. This file number should be included on the subject line if e-mail 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 website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change 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 website 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 the filing also will be available for inspection and copying at the principal office of NSCC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). 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 Number SR-NSCC-2015-005 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

Robert W. Errett  
Deputy Secretary

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<sup>12</sup> 17 CFR 200.30-3(a)(12).