

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79734; File No. SR-NSCC-2016-007)

January 4, 2017

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

On November 7, 2016, National Securities Clearing Corporation NSCC filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-NSCC-2016-007, 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 November 25, 2016.³ The Commission did not receive any comment letters on the proposed rule change. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

I. Description of the Proposed Rule Change

The proposed rule change consists of amendments to NSCC’s Rules & Procedures (“Rules”)⁴ in order to ensure, according to NSCC, that the Rules are consistent with the anticipated industry-wide move to a shorter standard settlement cycle for certain securities⁵ from the third business day after the trade date (“T+3”) to the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 79356 (November 18, 2016), 81 FR 85299 (November 25, 2016) (SR-NSCC-2016-007); (“Notice”).

⁴ Capitalized terms not defined herein are defined in the Rules, available at http://dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf.

⁵ The financial services industry, in coordination with its regulators, is planning to shorten the standard settlement cycle for equities, corporate and municipal bonds,

second business day after the trade date (“T+2”), as described below. However, NSCC would not implement the proposed rule change until NSCC files with the Commission a subsequent proposed rule change, under Rule 19b-4,⁶ to establish an effective date for the proposed change.

While the core functions of NSCC would continue to operate in the same way in the Shortened Settlement Cycle, NSCC has determined that the move to T+2 would necessitate certain amendments to the Rules because currently the Rules are designed to accommodate a T+3 settlement cycle. In particular, NSCC has identified and proposes to change (i) rules that have timeframes and/or cutoff times that are tied to the current T+3 standard settlement cycle, and (ii) rules affected by process changes relating to the Shortened Settlement Cycle. In addition, NSCC also proposes to make a number of technical changes and corrections to the Rules.

A. Rules Tied to the Current T+3 Standard Settlement Cycle

NSCC proposes changes to the following Rules because they contain provisions that are tied to the current T+3 standard settlement cycle and would need to be changed to facilitate the move to Shortened Settlement Cycle:

unit investment trusts and financial instruments comprised of the foregoing products traded on the secondary market from T+3 to T+2 (“Shortened Settlement Cycle”). See Securities Exchange Act Release No. 78962 (September 28, 2016), 81 FR 69240 (October 5, 2016) (S7-22-16) (Amendment to Securities Transaction Settlement Cycle).

⁶ 17 CFR 240.19b-4.

1. Rule 4A (Supplemental Liquidity Deposits)

In Section 2, delete references to the “third Settlement Day” and replace them with references to the “second Settlement Day” in the definition of “Options Expiration Activity Period.”

2. Procedure II (Trade Comparison and Recording Service)

In Section C.1.(p), with regards to trade input and comparison of debt securities transactions submitted for non-standard settlement, delete the reference to “T+2 and T+1 settlement” and replace it with “T+1 settlement.”

In Section D.2.(A)(1)(b), with regards to municipal and corporate debt securities, delete the reference to “two days” and replace it with “one day.”

In Section F.2, with regards to the Settlement Date for the Index Receipts, delete the reference to “T+1, T+2 or T+3” and replace it with “T+1 or T+2.”

In Section G, with regards to the eligibility of trades to be settled in the normal settlement cycle and the cutoff time for updating the totals reported for such trades, delete references to “T+3” and replace them with “T+2.”

3. Procedure III (Trade Recording Service (Interface with Qualified Clearing Agencies))

In Section B, with regards to the Settlement Date for the exercise or assignment of options at The Options Clearing Corporation, delete the reference to “three days” and replace it with “two days.”

4. Procedure V (Balance Order Accounting Operation)

In Section C, (i) with regards to the timing for the netting of trades in Balance Order Securities, delete references to “T and T+1” and replace them with “T” and (ii) with regards to the listing of the Clearance Cash Adjustment amount for all Balance

Orders on the Consolidated Trade Summary, delete the reference to the Consolidated Trade Summary being available on T+2.

5. Procedure VII (CNS Accounting Operation)

In Section B, (i) with regards to the timing of the comparison or recording of trades in CNS Securities for inclusion on the Consolidated Trade Summary, delete the words “T+1 up to” and (ii) with regards to the timing of as-of trades in CNS Securities that are reported on the Consolidated Trade Summary, delete references to “T+2” and “T+3” and replace them with “T+1” and “T+2,” respectively.

In Section G.3, with regards to the time period for determining the rate of the split for adjustments to Current Market Price in the case of stock splits, delete the reference to “last two days” and replace it with “one day.”

In Section H.4(b), (i) with regards to timing related to securities subject to voluntary reorganizations, delete references to protect periods of “two days,” “three days,” and “greater than three days” and replace them with “one day,” “two days,” and “greater than two days,” respectively, and delete references to “E+2,” “E+3,” and “E+4” and replace them with “E+1,” “E+2,” and “E+3,” respectively; (ii) in the table listing the time frames for the processing of securities subject to voluntary reorganizations with a protect period, delete the reference to “two days or less” and replace it with “one day or less” as well as delete the entries for the two-day protect period; and (iii) with regards to the timing for the recording of ID Net Service eligible transactions on the Miscellaneous Activity Report, delete the words “on the night of T+2.”

In Section K, with regards to the timing for advising a Member about its potential liability with respect to a short position or a short Settling Trade position in a security to

which an exercise privilege attaches, delete the reference to “T+2” and replace it with “T+1.”

6. Procedure XIII (Definitions)

In the definition for “T,” delete the reference to “T+3” and replace it with “T+2.”

7. Procedure XVI (ID Net Service)

In Procedure XVI, with regards to the timing for processing by NSCC of ID Net Service transactions, delete references to “the evening of T+2” and “the night of T+2” and replace them with “the evening prior to Settlement Date” and “the night prior to Settlement Date,” respectively.

8. Addendum A (Fee Structure)

In Section E.1, with regards to the fee for Index Creation and Redemption instructions submitted for regular way settlement, delete the explanatory parenthetical “(T+3)” and replace it with “(T+2).”

9. Addendum K (Interpretation of the Board of Directors Application of Clearing Fund)

In Section I.2, with regards to the endpoint of NSCC’s guaranty for balance order transactions, delete the reference to “T+3” and replace it with “T+2.”

B. Rules Covering Processes Affected by a Shortened Settlement Cycle

According to NSCC, it conducted an in-depth review of its internal operational processes to identify those processes that would require changes in order to accommodate the Shortened Settlement Cycle. In connection with that review, NSCC has identified the following provisions in the Rules that would need to be updated in connection with such process changes:

1. Procedure V (Balance Order Accounting Operation)

In Section B, with regards to trades that are to be processed on a trade-for-trade basis, clarify that such processing occurs for trades that are compared or otherwise entered into the Balance Order Accounting Operation on SD-1, “after the cutoff time established by the Corporation.” This is because under the Shortened Settlement Cycle, trades that are compared or otherwise entered into the Balance Order Accounting Operation on SD-1 would be processed as multilaterally netted balance orders when reported on the Consolidated Trade Summary issued at approximately 12:00 p.m. ET on SD-1. Trades compared and reported thereafter would continue to be processed on a trade-for-trade basis.

Similarly, in Section B, with regards to trades that are to be processed on a trade-for-trade basis, clarify that such process occurs for securities that are subject to a voluntary corporate reorganization which have a trade date on or before the expiration of the voluntary corporate reorganization and which are compared or received “on SD-1, after the cutoff time established by the Corporation” and not “after SD-1.” This shift in cutoff time is because “as of” regular way trades compared and received prior to 11:30 a.m. on SD-1 would be processed as multilaterally netted balance orders when reported on the Consolidated Trade Summary issued at approximately 12:00 p.m. ET on SD-1. “As of” regular way trades compared and reported thereafter would continue to be processed on a trade-for-trade basis.

2. Procedure VII (CNS Accounting Operation)

In Section D.1, with regards to the timing of the distribution of Projection Reports, delete the reference to “[e]ach morning” and replace it with “[t]wice a day” because currently NSCC distributes the Projection Report only once a day; however, after

the implementation of the Shortened Settlement Cycle, NSCC would be distributing the Projection Reports twice a day to enable Members to view their updated positions on a more timely basis.

C. Other Technical Changes and Corrections

During its review of the Rules in connection with the Shortened Settlement Cycle, NSCC has identified the following technical changes and/or corrections that it proposes to make to the Rules in order to ensure that the Rules remain consistent and accurate:

- In Rule 3, Section 1(c), add a footnote that identifies the term “CUSIP” as a registered trademark of the American Bankers Association.
- In Procedure II, Section G, correct a grammatical error.
- In Procedure VII, Sections B and D, correct grammatical errors.
- In Procedure X, Section B, delete the reference to the timeframe for the delivery of Liability Notices to the contra party by Members holding the receive balance orders for warrants, rights, convertible securities or certain other securities so the Members would remain solely subject to the schedules of the relevant exchanges.
- In Procedure XIII, delete the incorrect reference to “Settlement Day” and replace it with “Settlement Date” in the definition for “T” to clarify that T+2 would normally be the Settlement Date after the implementation of the Shortened Settlement Cycle.
- In Procedure XVI, correct a grammatical error.

II. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act⁷ 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. The Commission believes the proposal is consistent with Section 17A(b)(3)(F) of the Act.

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.⁸ The Commission believes that the proposed changes are consistent with the requirements of Section 17A(b)(3)(F) because by conforming NSCC's timeframes and/or cutoff times to accommodate the Shortened Settlement Cycle, the proposal would help ensure that securities transactions would be promptly and accurately cleared and settled within the Shortened Settlement Cycle. Similarly, the related process changes proposed are designed to update NSCC's operations in order to facilitate the move to the Shortened Settlement Cycle and, by extension, facilitate the prompt and accurate clearance and settlement of securities transactions submitted to NSCC for clearing and settlement. Therefore, the proposed rule change would help promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.⁹

⁷ 15 U.S.C. 78s(b)(2)(C).

⁸ 15 U.S.C. 78q-1(b)(3)(F).

⁹ Id.

As the proposed rule change pertains to technical changes to the Rules, the Commission finds the technical changes also consistent with Section 17A(b)(3)(F) of the Act¹⁰ because the technical updates are designed to make the Rules more clear, consistent, and current for Members that rely on them. Therefore, the proposed technical changes would help support NSCC's prompt and accurate clearance and settlement of securities transactions made by Members.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposals are consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act¹¹ and the rules and regulations thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that proposed rule change SR-NSCC-2016-007 be, and hereby is, APPROVED.¹²

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

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Assistant Secretary

¹⁰ Id.

¹¹ 15 U.S.C. 78q-1.

¹² In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹³ 17 CFR 200.30-3(a)(12).