

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66539; File No. SR-NSCC-2012-03)

March 8, 2012

Self-Regulatory Organizations; The National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Messaging and Settlement Enhancements to the In Force Transactions Product Service of NSCC's Insurance and Retirement Services and the Establishment of Fees Applicable Thereto

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on February 29, 2012, the National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change described in Items I, II and III below, which Items have been prepared primarily by NSCC. NSCC filed the proposal pursuant to Section 19(b)(3)(A)(ii)² and (iii)³ of the Act, and Rule 19b-4(f)(2)⁴ and Rule 19b-4(f)(4)(i)⁵ thereunder so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the rule change from interested parties.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change applies to Rule 57 of NSCC's Rules and Procedures. The rule change consists of messaging and settlement enhancements to the In Force Transactions ("IFT")

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78s(b)(3)(A)(ii)

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(2).

⁵ 17 CFR 240.19b-4(f)(4)(i).

product service of NSCC's Insurance and Retirement Services ("I&RS"). The proposed rule change also establishes the fees in connection therewith.

II. Self-Regulatory Organization'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 these statements.⁶

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(i) Background. The I&RS provides a centralized communication link that connects participating insurance companies ("Carriers") with participating intermediaries, such as broker-dealers, banks, and insurance agencies ("Distributors"), that distribute a participating Carriers' insurance products. In general, the IFT service automates the transmission of data with respect to in force policy transactions among participating I&RS members ("I&RS Members"). In force policy transactions, also known as post issue transactions, are transactions that take place after the underlying insurance contract has become effective. NSCC proposes to enhance IFT's messaging capabilities, as well as leverage NSCC's general settlement capability and apply it to the suite of IFT product services.

⁶ The Commission has modified the text of the summaries prepared by NSCC.

The Proposed Messaging Enhancements. The proposed messaging enhancements will allow Distributors of insurance and retirement products (or other benefit plan or program products) processed within the I&RS to send and receive automated messages to and from Carriers relating to (i) money withdrawals and/or (ii) modified arrangement requests with regard to an underlying in force insurance policy.

a. **Withdrawal Messages.** Withdrawal messages are requests from Distributors to process a one-time full or partial withdrawal of money with regard to an in force insurance policy.

b. **Arrangement Messages.** Arrangement messages are requests from Distributors to add, modify, or delete service features of an in force insurance policy. A service feature may include, but is not limited to, the following contract features: systematic withdrawals (e.g., changing a currently established monthly withdrawal under an existing policy to a quarterly withdrawal), automatic investment plans (e.g., scheduling automatic additional periodic payments to an insurance policy), asset allocation programs (e.g., requesting a change in the asset to be invested), and asset rebalancing (e.g., requesting a change in the allocation of investment among the various assets).

Any request for a withdrawal from or to add, modify, or delete a service feature in an existing policy would be initiated by the Distributor on behalf of the customer and transmitted to the Carrier through the I&RS network. Each such transaction request will require validation by both the Distributor and the Carrier, enabling each to review the transaction request against its own legal and other product and customer rules applicable to the transaction.

Prior to initiating a withdrawal or arrangement request, the Distributor generally must access current contract information to determine if the request can be made with respect to a

particular contract, including confirming fund balances held under the contract and applicable rules. Accordingly, the withdrawal and arrangement enhancements will include a real-time inquiry and response transaction functionality that will allow Distributors to inquire and the Carrier to provide a current “snapshot” of the contract. NSCC’s Positions and Values service also may be used in conjunction with the request. Receipt of the current contract information from the Carrier permits the Distributor to review the request for suitability and compliance requirements. This preliminary request for and receipt of information is referred to as a “values inquiry and response.”

Following the values inquiry and response, the Distributor will initiate a withdrawal request or an arrangement request to be delivered to the Carrier. Upon receipt of the applicable request from the Distributor, NSCC will review the request for such information as NSCC determines from time to time to be necessary.⁷ If the request appears to contain the information required by NSCC, it will be forwarded by NSCC to the Carrier. The Carrier will then perform “real time” validation on the content of the request. This validation may involve consideration of transaction integrity that can be evaluated before fund prices are available and the actual transaction is processed by the Carrier’s administration system in the overnight batch cycle. The validation that may occur includes edits such as: the policy exists, the Distributor was preauthorized by the owner for the transaction, the amount being requested can be withdrawn,

⁷ Note that Rule 57, Section 1(j) generally provides that NSCC will not be responsible for the completeness or accuracy of any data transmitted between I&RS Members through NSCC’s I&RS, nor for any errors, omissions or delays which may occur in the absence of gross negligence on NSCC’s part, in the transmission of such data between I&RS Members. The changes to Rule 57 being proposed hereby are subject to the limitations set forth in Rule 57, Section 1(j).

and the destination account is valid. The level of validation that is performed during the day will be determined by each Carrier and possibly by a “trading partner agreement.”

Regardless of the complexity of the Carrier’s validation process, after receiving the original request the Carrier will create a response message to be sent back to the Distributor through NSCC’s I&RS with acceptance or rejection of the withdrawal or arrangement request. NSCC will review the response message for such information as NSCC determines from time to time to be necessary. If the response message appears to contain the information required by NSCC, it will be forwarded by NSCC to the Distributor.

When the withdrawal request or arrangement request is successfully processed by the Carrier, a “success” message will be sent through NSCC’s I&RS to the Distributor. Alternatively, the Carrier may send a failure message to the Distributor if the requested transaction fails (for instance, if after the request is initiated a price change in an underlying fund results in a value that is outside of the amount allowed for a withdrawal), or the Carrier may send a pending message.

The proposed IFT enhancements will also support a cancellation functionality to allow the Distributor to request the cancellation of a withdrawal or arrangement request. The Carrier may accept the cancellation request, or it may reject it (if, for example, the Carrier does not allow the cancellation under the reject reason code provided by the Distributor).

Implementation of the withdrawal and arrangement messaging enhancements being proposed by this rule filing will be the third phase of NSCC’s plan for the automation and standardization of a broad range of messaging enhancements to the IFT product service.⁸ The

⁸ See, e.g., SR-NSCC-2005-02, Securities Exchange Act Release No. 34-51753 (May 27, 2005), 70 FR 32859 (June 6, 2005); SR-NSCC-2005-09, Securities Exchange Act Release No.

automation of in force transactions is consistent with the insurance industry's straight-through processing objectives and the continued efforts to mainstream insurance products with other financial products.

The proposed IFT messaging enhancements are intended to replace the current varied processes used by Distributors to request withdrawals from or changed arrangements within an insurance contract. Current processes include using Carrier websites, telephone, fax, and email. Automation and standardization of the process will increase efficiency, create an automated record of the transaction, and facilitate monitoring compliance with regulatory requirements.⁹ By centralizing all withdrawal requests initiated by registered representatives through one application at NSCC, a broker-dealer firm will be better able to monitor the activity of its registered representatives to assure compliance with regulatory requirements. To facilitate compliance requirements under Rule 22c-1 of the Investment Company Act of 1940 ("1940 Act"), the withdrawal request message from the Distributor to the Carrier has mandatory message fields for the transaction date and transaction time, these being the date and time the Distributor received the withdrawal request from its customer. Pursuant to arrangements between a Distributor and the Carrier that issued the variable contract, the Carrier

34-52343 (August 26, 2005), 70 FR 52461 (September 2, 2005); SR-NSCC-2008-03, Securities Exchange Act Release No. 34-58053 (June 26, 2008), 73 FR 38749 (July 7, 2008).

⁹ Variable insurance products are "securities" for purposes of federal securities law, the sale of which is subject to regulation by the Commission and the Financial Industry Regulatory Authority ("FINRA"). In addition, investment options (or "funds") included within a variable insurance contract are typically separate accounts that are, absent an exemption, required to register as investment companies under the 1940 Act. Withdrawals must therefore also comply with relevant provisions of the 1940 Act and the regulations promulgated thereunder.

may determine to accept the Distributor's receipt of the order from its customer as the time the order was received for purposes of Rule 22c-1.¹⁰

The Proposed Settlement Enhancement. The in force money settlement enhancement being proposed by this rule change will leverage NSCC's existing net daily money settlement process and apply it to in force policy withdrawal or premium payment transaction. Once implemented, the proposed money settlement functionality would be available for all in force transactions that include a money settlement component, as opposed to having to create the money settlement functionality on a product-by-product basis as is currently the practice. The in force money settlement enhancement would only be available to I&RS Members and would permit Carriers and Distributors to settle money transactions even if the underlying in force insurance transaction is, or was, processed outside of NSCC (e.g., an in force policy that contains a systematic withdrawal provision). Under the proposed enhancement, a money settlement transaction to be processed within NSCC's I&RS network would be in all cases initiated by the I&RS Member whose account is to be debited. The credit to be paid to the applicable contra side I&RS Member will be processed through NSCC's net daily money settlement process and, to the extent a net credit is due to such contra side I&RS Member under NSCC's settlement rules, payment shall be made in accordance with NSCC's standard settlement procedures.

Automated money settlement for some of these currently non-automated transactions would provide activity detail between I&RS Member Carriers and Distributors currently not

¹⁰ Rule 22c-1 under the 1940 Act, often referred to as the "forward pricing" rule, requires that orders in investment company shares be priced based upon the current net asset value (NAV) next computed after receipt of the order to buy or redeem shares (17 CFR 270.22c-1(a)). The receipt of an order for the purchase or redemption of mutual fund shares by a distributing broker-dealer from its customer is generally deemed receipt of the order in investment company shares for purposes of Rule 22c-1. This practice is generally subject to the provisions of the distribution agreement between the fund and the distributing broker-dealer.

existing today and would allow these I&RS Members to include such settlements within their daily NSCC net settlement obligations. As with all I&RS settlement, the proposed settlement enhancement would be a non-guaranteed service of NSCC.

The Proposed Fees. NSCC proposes to update the Fee Schedule to incorporate the fees associated with the messaging and settlement enhancements proposed by this rule filing and to make certain technical and clarification changes. The fees associated with withdrawal message requests will be \$1.25 per message request per side. The fees associated with arrangement message requests will be \$1.25 per message request per side. The fees associated with settlement processing for withdrawals and premium payments will be \$0.50 per transaction per side.

(ii) The proposed rule change will promote processing efficiencies between Carriers and Distributors, thereby facilitating the prompt and accurate processing of securities transactions, consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC.

(B) Self-Regulatory Organization's Statement on Burden on Competition

NSCC does not believe that the proposed rule change will have any impact or impose any burden on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments relating to the proposed rule change have not been solicited or received. 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

The foregoing proposed rule change has become effective upon filing pursuant to Section 19(b)(3)(A)(ii)¹¹ and (iii)¹² of the Act and Rule 19b-4 (f)(2)¹³ and (4)(i)¹⁴ thereunder because it establishes or changes a due, fee, or other charge applicable only to a member imposed by NSCC and because it effects a change in an existing service of NSCC that does not significantly affect the safeguarding of securities or funds in the custody or control of NSCC or for which it is responsible, and does not significantly affect the respective rights or obligations of NSCC or persons using this service. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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

¹¹ 15 U.S.C. 78s(b)(3)(A)(ii).

¹² 15 U.S.C. 78s(b)(3)(A)(iii).

¹³ 17 CFR 240.19b-4(f)(2).

¹⁴ 17 CFR 240.19b-4(f)(4)(i).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NSCC-2012-03 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NSCC-2012-03. 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 such filings also will be available for inspection and copying at the principal office of NSCC and on NSCC's website at

http://www.dtcc.com/downloads/legal/rule_filings/2012/nsc/SR-NSCC-2012-03.pdf

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-2012-03 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.¹⁵

Kevin O’Neill
Deputy Secretary

¹⁵ 17 CFR 200.30-3(a)(12).