

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-76099; File No. SR-NSCC-2015-004)

October 7, 2015

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Require Real-Time Trade Submission and to Prohibit Pre-Netting Practices through NSCC's Correspondent Clearing Service

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 ("Act") and Rule 19b-4² thereunder, notice is hereby given that on September 30, 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)³ 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 require that trade data submitted to NSCC through its Correspondent Clearing service, other than position movements between NSCC Members that are Affiliates and Client Custody Movements, as described further below, be submitted in real-time, and to prohibit pre-netting and other practices that prevent real-time trade submission.⁴

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(2).

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

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. Purpose⁵

Requiring trades to be submitted in real-time facilitates efficient risk management for both NSCC and its Members, enables same-day bookkeeping and reconciliation, and, therefore, significantly reduces risk to the industry. Receipt of trade data on a real-time basis permits NSCC's risk management processes to monitor trades closer to trade execution on an intra-day basis, and to identify and risk manage any issues relating to exposures earlier in the day. Contract information is currently reported out to submitting firms by NSCC's Universal Trade Capture ("UTC") system upon trade comparison and validation, and receipt of trade data in real-time enables NSCC to report to Members trade data as it is received, thereby promoting intra-day reconciliation of transactions at the Member level. The majority of trades submitted to NSCC for clearing are currently being submitted in real-time on a trade-by-trade basis, and NSCC is operationally capable

⁵ Pursuant to a telephone call with NSCC's internal counsel on October 1, 2015, staff in the Office of Clearance and Settlement added the heading. NSCC inadvertently omitted the heading.

of managing trade volumes that are multiple times larger than the historical peak volumes.

NSCC is proposing to require that trade data submitted through its Correspondent Clearing service, as described below, be submitted in real-time and to prohibit pre-netting and other practices that prevent real-time trade submission (“pre-netting practices”).

NSCC would exclude from this requirement position movements between NSCC Members that are Affiliates and Client Custody Movements, as described below. The term “real-time,” when used with respect to trade submission, is defined in Procedure XIII (Definitions) of the Rules as the submission of trade data on a trade-by-trade basis promptly after trade execution, in any format and by any communication method acceptable to NSCC.

NSCC’s UTC system receives and validates transactions that are submitted to it, reports trade details back out to the submitting firm, and prepares those transactions for netting and settlement by routing transactions to netting and settlement systems, such as Continuous Net Settlement Accounting Operation, the Balance Order Accounting Operation, or the Foreign Security Accounting Operation, as applicable. Transactions are submitted to UTC either on a locked-in basis by self-regulatory organizations (including national and regional exchanges and marketplaces) (“SROs”) and Qualified Special Representatives (“QSRs”),⁶ or are submitted to UTC as a part of NSCC’s Correspondent

⁶ QSRs are defined in Section 3 of Rule 7 as NSCC Members that have applied to NSCC to be a Special Representative, and either (i) operate an automated execution system where they are always the contra side of every trade, (ii) are the parent or affiliate of an entity operating such an automated system, where they are the contra side of every trade, or (iii) clear for a broker/dealer that operates such a system and the subscribers to the system acknowledge the clearing Member’s role in the clearance and settlement of these trades. Rules, supra note 4.

Clearing service, which allows for post-execution position movements between two clearing firms. Currently all transactions submitted to NSCC on a locked-in basis by SROs and QSRs, which constitute approximately 95% of all transactions processed at NSCC,⁷ are required to be submitted in real-time and may not be pre-netted or batched prior to submission.⁸

NSCC's Correspondent Clearing service is designed to provide an automated method by which a Member, acting as a Special Representative, may move a position that has been submitted to NSCC for clearing to the account of another Member (the submitting Member's correspondent) on whose behalf the original trade was executed.⁹ Members participating in the Correspondent Clearing service for post-execution position movements and those participating as a QSR for submission of original, locked-in trades are required to apply for status as a Special Representative or as a QSR, and to establish

⁷ Based on data from the second quarter of 2015, which show an approximate daily average of 41 million transactions processed at NSCC, with an approximate total daily value of an average of \$455 billion; and an approximate average of 1.1 million submissions through Correspondent Clearing, with an approximate total daily value of an average of \$57 billion. The average daily volume of submissions through Correspondent Clearing is less than 5% of NSCC's overall daily volume.

⁸ Securities Exchange Act Release No. 69890 (June 28, 2013), 78 FR 40538 (July 5, 2013) (File No. SR-NSCC-2013-05). See also Rule 7 (Comparison and Trade Recording Operation), Procedure II (Trade Comparison and Recording Service), and Procedure IV (Special Representative Service), supra note 4.

⁹ The term "original trade" is used within the Rules describing the Correspondent Clearing service solely to distinguish between trades executed in the marketplace by the Special Representative, and transactions booked for accounting purposes to accommodate the movement of positions between Members as provided for in Section C of Procedure IV. Original trades may not be submitted through NSCC's Correspondent Clearing service. Rules, supra note 4.

relationships with other NSCC Members that will be designated as their correspondents.¹⁰

While NSCC encourages Special Representatives to submit Correspondent Clearing submissions to NSCC as soon as possible following execution, currently these position movements may be sent to NSCC either in real-time, intraday, or at the end of the day.

NSCC has continued to engage widely with its Members about the benefits of expanding the requirements to submit transactions in real-time and, as a result of these continuing discussions, is now proposing to modify its Rules to require that trade data submitted through its Correspondent Clearing service also be submitted in real-time. The proposed rule change would also prohibit pre-netting practices that prevent real-time trade submission through Correspondent Clearing.

NSCC's Rules currently prohibit pre-netting practices that preclude real-time submission with respect to submissions by QSRs and SROs. Pre-netting practices that are currently prohibited include "summarization" (a technique in which the clearing broker nets all trades in a single CUSIP by the same correspondent broker into fewer submitted trades), "compression" (a technique to combine submissions of data for multiple trades to the point where the identity of the party actually responsible for the trades is masked), netting, or any other practice that combines two or more trades prior to their submission to NSCC.

NSCC is proposing to extend the prohibition against pre-netting practices to submissions through Correspondent Clearing because pre-netting practices prevent the

¹⁰ Pursuant to a telephone call with NSCC's internal counsel on October 5, 2015, staff in the Office of Clearance and Settlement corrected an incorrect statement that Members utilizing the services of a QSR are required to apply for status as a Special Representative or as a QSR. NSCC intended to state that Members participating as a QSR are required to apply for status as a Special Representative or as a QSR.

submission to NSCC of transactions on a trade-by-trade basis, and cause Special Representatives to delay submission of their trades, thereby undermining the risk mitigation benefits of real-time trade submission. Pre-netting practices disrupt NSCC's ability to accurately monitor market and credit risks as they evolve during the trading day.

NSCC would exclude from the requirements of this proposal any position movements between Members that are Affiliates, as identified within NSCC's membership management records. As defined in Rule 4A, "Affiliate" means a person that controls or is controlled by or is under common control with another person.¹¹ Position movements between Affiliates do not introduce the risk management concerns that are mitigated by real-time trade submission. As such, Members would not be required to submit these position movements in real-time, but would continue to be encouraged to do so. Position movements between Affiliates represent fewer than 5% of trade data submitted through Correspondent Clearing to NSCC.¹²

In order to submit trade data through Correspondent Clearing outside of the real-time trade submission requirements, Special Representatives would need to identify a transaction as an Affiliate position movement. NSCC would validate the Affiliates'

¹¹ Control of a person means the direct or indirect ownership or power to vote more than 50% of any class of the voting securities or other voting interests of any person. Rule 4A, supra note 4.

¹² Based on data from the second quarter of 2015, which show an approximate daily average of 1.1 million submissions through Correspondent Clearing at NSCC, with an approximate total daily value of an average of \$57 billion; and an approximate average of 52,000 position movements through Correspondent Clearing between Affiliates, with an approximate total daily value of an average of \$13 billion. The average daily volume of position movements through Correspondent Clearing between Affiliates is less than 1% of NSCC's overall daily volume.

relationship between the counterparties by a check against the information within NSCC's membership management records as of the time of the trade submission. Members continue to be required to provide NSCC with current information regarding their corporate ownership structure. If an Affiliate relationship is not reflected on NSCC's records at the time of the trade submission, the transaction will be rejected.

NSCC would also exclude from the requirements of this proposal position movements that occur between two unaffiliated clearing brokers, typically at the end of the day, on behalf of a common customer for custody purposes ("Client Custody Movements"). These movements, which today represent approximately 1% of submissions through Correspondent Clearing, would be exempt from the requirement because they necessarily take place at the end of the day, after the common client has reviewed its end of day positions and has instructed the clearing brokers as to which positions it will move for custody purposes.

NSCC proposes to amend Rule 7 (Comparison and Trade Recording Operation), Procedure II (Trade Comparison and Recording Service), and Procedure IV (Special Representative Service) to require that trades submitted by Special Representatives for trade recording through NSCC's Correspondent Clearing service be submitted on a real-time basis and to make clear that trade data submitted to NSCC through Correspondent Clearing service must be submitted on a trade-by-trade basis, in the original form executed, and that pre-netting practices are prohibited. The proposed rule change would also make clear that these requirements would not apply to position movements between NSCC Members that are Affiliates or to Client Custody Movements.

Implementation Timeframe

Pending Commission approval of this proposed rule change, Members would be advised of the implementation date through issuance of an NSCC Important Notice. The proposed rule change would not be implemented earlier than ten business days from the date of Commission approval.

2. Statutory Basis

NSCC believes that this proposal is consistent with Section 17A(b)(3)(F) of the Act, which requires that NSCC's Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and, in general, to protect investors and the public interest.¹³

The proposal would enable NSCC to monitor trades closer to trade execution on an intra-day basis and identify and risk manage any issues relating to exposures earlier in the day. Further, receipt of trade data in real-time would enable NSCC to report to Members trade data as it is received, promoting intra-day reconciliation of transactions at the Member level. Therefore, the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions by reducing operational, market, and credit risks faced by NSCC and its Members, consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), as cited above.

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

NSCC does not believe that the proposed rule change would have any impact on competition because the proposed requirements would apply an existing requirement

¹³ 15 U.S.C. 78q-1(b)(3)(F). Pursuant to a telephone call with NSCC's internal counsel on October 1, 2015, staff in the Office of Clearance and Settlement corrected an incorrect reference to 5 U.S.C. 78q-1(b)(3)(F). NSCC intended to refer to 15 U.S.C. 78q-1(b)(3)(F).

equally to all Members that submit transactions to NSCC through its Correspondent Clearing 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. Please include File Number SR-NSCC-2015-004 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-2015-004. 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-2015-004 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.¹⁴

Robert W. Errett
Deputy Secretary

¹⁴ 17 CFR 200.30-3(a)(12).