

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-83666; File No. SR-NSCC-2018-004)

July 18, 2018

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change to Terminate the Commission Billing Service and the Commission Billing Limited Membership

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 13, 2018, 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 the clearing agency. 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 Rules and Procedures of NSCC (“Rules”) in order to in order to terminate the Commission Billing service and the Commission Billing type of limited membership, as described in greater detail below.³

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Available at <http://www.dtcc.com/legal/rules-and-procedures>. Capitalized terms used herein and not otherwise defined shall have the meaning assigned to such terms in the Rules.

examined at the places specified in Item IV below. The clearing agency 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

NSCC is proposing to revise its Rules in order to discontinue its Commission Billing service and the Commission Billing type of limited membership, for the reasons described below.

Overview of the Commission Billing Service

As currently described in Rule 16, NSCC provides a service through which it facilitates the payment of commissions on monthly basis between its Members and Commission Billing Members.⁴ Brokers that use this service to charge and collect commissions are Commission Billing Members, which is a type of limited membership that allows these firms to participate in NSCC solely for the collection of commissions.

Currently, Commission Billing Members are floor broker firms that are members of the New York Stock Exchange (“NYSE”) and NYSE American (formerly the American Stock Exchange), although historically the service was available to floor broker firms on any U.S. exchange. As provided for in Rule 2 of the Rules, Commission Billing Members participate solely in the collection and payment of commissions as provided for under Rule 16 of the Rules.⁵

⁴ Id.

⁵ Id.

Floor broker firms execute trades on behalf of their clients for a commission. In order to process commission charges applied to clients who are Members, floor broker firms that are Commission Billing Members may submit these charges to NSCC. Commission charges are submitted to NSCC in one of two ways. In most cases, where the Commission Billing Member is a member of NYSE, NYSE may act as a payment-data aggregator and creates and submits payment files to NSCC. Alternatively, Commission Billing Members may submit payments directly to NSCC through a web-based system. NSCC tabulates all payment records received on a monthly basis, and either sends amounts to The Depository Trust Company (“DTC”) for payment (for billed Members that are also Participants of DTC) or processes payments through Automated Clearing House, or “ACH,” payments.

For many years, the Commission Billing service provided these brokers and Members with an efficient way to submit and receive commission payments when few alternative payment options existed in the industry that would handle the large volume of transactions.

Rationale for Terminating the Commission Billing Service and Commission Billing Limited Membership

NSCC is proposing to terminate the Commission Billing service for a number of reasons, as described below. Because the Commission Billing type of limited membership exists only for the purposes of the use of this service, NSCC would terminate the existing Commission Billing memberships simultaneously with the termination of the service.

Over the years, the volumes of trades handled by floor brokers firms have decreased, leading to a significant decrease in commission bill transactions and the use of

this service. Between January 2017 and June 2018, the Commission Billing service processed an average of approximately 87 commission payments per month (averaging a total of approximately \$370,000 each month), compared to an average of approximately 10,000 commission payments per month in the early 2000's. The number of Commission Billing Members has also declined, with only seven new firms joining over the last eight years. Commission Billing Members have alternative methods to process commission payments. For example, firms may process the charges and payments through their own accounts payable systems, charging and collecting payments from their clients directly. Due to the lower volumes of commission payments, this is a more reasonable alternative to the Commission Billing Service than it may have been when volumes of payments were higher. Therefore, the industry's reliance on this service, which was built to provide an efficient way to process large volumes of payments, has been diminishing.

Since the introduction of the service, NSCC has provided the Commission Billing service as a utility service to the industry and its Members; the service provided its Members and the industry with value, but it was not designed to generate profit for NSCC. Over time, the reduced volumes of transactions has caused this service to be provided at a financial loss to NSCC. Costs of providing the service include engaging an ACH settling bank and ongoing system operating costs.

Additionally, due to the use of legacy systems that lack automation and support features, the service continues to rely on manual processes and requires personnel involvement. While errors in the operation of the service are infrequent, the reliance on manual processes creates a risk of such errors. Remediation of such errors, if they occur, could distract support resources from higher priority tasks. NSCC would be required to

invest in enhancements to the systems that support the Commission Billing service if it continued to offer the service.

Therefore, due to the reduced reliance on this service by the industry, the cost of providing this service, and the availability of other methods for Members and brokers to process these payments, NSCC is proposing to terminate the Commission Billing service.

In order to terminate the Commission Billing service, NSCC would amend the Rules to remove Rule 16 (Settlement of Commissions) and to remove references to the Commission Billing type of limited membership from Rule 1 (Definitions and Descriptions), Rule 2 (Members and Limited Members), Rule 2A (Initial Membership Requirements), Rule 2B (Ongoing Membership Requirements and Monitoring), Rule 18 (Procedures for When the Corporation Declines or Ceases to Act), Rule 22 (Suspension of Rules), Rule 24 (Charges for Services Rendered), Rule 26 (Bills Rendered), Rule 34 (Insurance), Rule 37 (Hearing Procedures), Rule 46 (Restrictions on Access to Services), Rule 58 (Limitations on Liability), Rule 64 (DTCC Shareholders Agreement), Addendum A (Fee Structure), Addendum B (Qualifications and Standards of Financial Responsibility, Operational Capability and Business History), Addendum D (Statement of Policy Envelope Settlement Service, Mutual Fund Services, Insurance and Retirement Processing Services, and Other Services Offered by the Corporation), and Addendum P (Fine Schedule). NSCC would also make necessary conforming changes to Addendum B (Qualifications and Standards of Financial Responsibility, Operational Capability and Business History) and Rule 1 (Definitions and Descriptions). Finally, NSCC would add a legend to each of the above listed Rules and Addenda that identifies the implementation date of the proposed changes.

Implementation Timeframe

Given that all current Commission Billing Members are floor broker members of NYSE and NYSE American, NSCC will work closely with these exchanges to provide these firms with notice of the proposed termination of this service and their related limited memberships with NSCC. NSCC also would provide these firms with time to transition to alternative methods for the submission of charges and receipt of commission payments. Subject to the approval of this proposed rule change filing, NSCC would implement this proposed rule change and terminate the Commission Billing service by no later than November 30, 2018.

2. Statutory Basis

NSCC believes that the proposed changes are consistent with the Section 17A(b)(3)(F) of the Act, which requires, in part, that the rules of a registered clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, for the reasons described below.⁶ The proposed rule change would terminate a service that takes up various resources (through its reliance on manual operations and by operating at a financial loss) and is no longer relied on by Members and the industry. Because NSCC would no longer need to divert resources to an underutilized service, the proposed rule change would afford NSCC the ability to employ those resources in a manner that could better support and promote the prompt and accurate clearance and settlement of securities transactions. In that way, NSCC believes the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.⁷

⁶ 15 U.S.C. 78q-1(b)(3)(F).

⁷ Id.

Rule 17Ad-22(e)(21)(iv) under the Act requires, in part, that NSCC be efficient and effective in meeting the requirements of its participants and the markets it serves, and have the covered clearing agency's management regularly review the efficiency and effectiveness of its use of technology and communication procedures.⁸ As described above, to continue providing the Commission Billing service, NSCC would need to enhance the systems and technology used to operate the system in order to implement more automation and support features. However, given that the service currently operates at a financial loss and does not provide the industry with the same value that it has in the past, NSCC has determined that it would be more efficient and effective in meeting the requirements of its Members to eliminate the service and instead use its resources for higher priority services. Therefore, NSCC believes the proposed rule change is consistent with Rule 17Ad-22(e)(21)(iv).⁹

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

The proposed rule change could have an impact on competition because Commission Billing Members that currently use the service to process their commission bills, and firms that may apply to use the service in the future, would no longer be able to do so. However, NSCC does not believe that the impact of this proposed rule change on competition would be significant. First, the proposal is unlikely to have a significant impact because the use of the service has diminished over time, as described above. NSCC has not onboarded a new Commission Billing Member in over two years, and the number of active Commission Billing Members has declined over time. Therefore,

⁸ 17 CFR 240.17Ad-22(e)(21)(iv).

⁹ Id.

elimination of the service is unlikely to impact many firms that may wish to join as Commission Billing Members in the future. Second, while current Commission Billing Members would need to use other methods to process commission payments, alternatives currently exist, including using their own accounts payable system. Given that volumes of commission bills have trended lower over the past few years, these firms should not incur a significant cost in processing commission bills and collecting commission payments through their own internal billing systems. Therefore, NSCC does not believe that the proposed rule change would have a significant impact on competition.

NSCC also believes that any impact the proposed rule change may have on competition would be both necessary and appropriate in furtherance of the purposes of the Act.

The proposed rule change would afford NSCC the option to utilize its resources for matters that better support and promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.¹⁰ The proposed rule change would also allow NSCC to be more efficient and effective in meeting the requirements of its Members by using its resources for higher priority services, consistent with Rule 17Ad-22(e)(21)(iv) under the Act.¹¹ Therefore, by advancing NSCC's ability to meet the requirements of both Section 17A(b)(3)(F) of the Act¹² and Rule 17Ad-22(e)(21)(iv) under the Act,¹³ NSCC believes any impact the

¹⁰ 15 U.S.C. 78q-1(b)(3)(F).

¹¹ 17 CFR 240.17Ad-22(e)(21)(iv).

¹² 15 U.S.C. 78q-1(b)(3)(F).

¹³ 17 CFR 240.17Ad-22(e)(21)(iv).

proposed rule change may have on competition would be necessary in furtherance of the purposes of the Act.

Additionally, NSCC believes that the proposed rule change is a reasonable method of advancing NSCC's ability to meet these requirements. As noted above, Members' use of this service has reduced over time, and the cost to NSCC of providing the service has outweighed the benefit it provides to the industry. NSCC would provide Members and Commission Billing Members with notice and time to transition to other viable methods for processing these payments. Therefore, NSCC believes the proposed rule change is a reasonable method of advancing NSCC's ability to meet the requirements of both Section 17A(b)(3)(F) of the Act¹⁴ and Rule 17Ad-22(e)(21)(iv) under the Act.¹⁵

Therefore, NSCC does not believe that the proposed rule change would have a significant impact on competition, and further believes that any such impact would be both necessary and appropriate in furtherance of the purposes of the Act.

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

NSCC has not solicited or received any written comments relating to this proposal. NSCC will notify the Commission of any written comments that it receives.

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

¹⁴ 15 U.S.C. 78q-1(b)(3)(F).

¹⁵ 17 CFR 240.17Ad-22(e)(21)(iv).

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-2018-004 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-NSCC-2018-004. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSCC-2018-004 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.¹⁶

Eduardo A. Aleman
Assistant Secretary

¹⁶ 17 CFR 200.30-3(a)(12).