

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-83937; File No. SR-NSCC-2018-004)

August 24, 2018

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change to Terminate the Commission Billing Service and the Commission Billing Limited Membership

On July 13, 2018, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-NSCC-2018-004, 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 July 24, 2018.³ The Commission did not receive any comment letters on the proposed rule change. For the reasons discussed below, the Commission approves the proposed rule change.

I. Description of the Proposed Rule Change

The proposed rule change would amend the Rules and Procedures of NSCC (“Rules”)⁴ to terminate the Commission Billing service. Currently, the Commission Billing service facilitates the payment of commissions between NSCC’s members (“Members”) and floor brokerage firms⁵ that charge commissions (“Commission Billing

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 83666 (July 18, 2018), 83 FR 35041 (July 24, 2018) (SR-NSCC-2018-004) (“Notice”).

⁴ Available at <http://www.dtcc.com/legal/rules-and-procedures>.

⁵ Floor brokerage firms are members of the New York Stock Exchange (“NYSE”) and NYSE American. Floor brokerage firms execute trades on behalf of their clients for a commission.

Members”).⁶ Commission Billing Members hold a limited membership at NSCC that allows such firms to participate in NSCC solely for the collection of commissions.⁷

NSCC tabulates all commission payment records received on a monthly basis, and either sends amounts to The Depository Trust Company (“DTC”) for payment (for Members that are also Participants of DTC) or processes payments through the Automated Clearing House.⁸

NSCC proposes to terminate the Commission Billing service and the associated membership category.⁹ NSCC states that over the years the volumes of trades handled by floor brokerage firms have decreased, leading to a significant decrease in the use of this service.¹⁰ NSCC states that the reduced volumes of transactions have caused this service to be provided at a financial loss to NSCC.¹¹ Additionally, NSCC states that 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, which can lead to errors.¹²

⁶ Notice, 83 FR at 35041.

⁷ Id.

⁸ Notice, 83 FR at 35041–42.

⁹ Notice, 83 FR at 35042.

¹⁰ Id.

¹¹ Id.

¹² Id.

NSCC would implement the proposed changes no later than November 30, 2018.¹³

II. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act 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.¹⁴ The Commission believes the proposal is consistent with Act, specifically Section 17A(b)(3)(F) of the Act and Rules 17Ad-22(e)(21)(iv) under the Act.¹⁵

A. Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a clearing agency, such as NSCC, be designed to promote the prompt and accurate clearance and settlement of securities transactions.¹⁶

As described above, the proposed rule change would terminate the Commission Billing service and the associated membership category. The proposed change is designed to eliminate an underutilized service that takes up NSCC resources (through its reliance on manual operations and by operating at a financial loss) and is no longer relied on by Members or the industry. As NSCC would no longer need to divert resources to the service, the proposed rule change would afford NSCC the opportunity to redeploy

¹³ Id.

¹⁴ 15 U.S.C. 78s(b)(2)(C).

¹⁵ 15 U.S.C. 78q-1(b)(3)(F); 17 CFR 240.17Ad-22(e)(21)(iv).

¹⁶ 15 U.S.C. 78q-1(b)(3)(F).

those resources in a manner that could better support NSCC's other, more utilized clearance and settlement services. Accordingly, the Commission finds that the proposed rule change is designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.¹⁷

B. Rule 17Ad-22(e)(21)(iv) under the Act

Rule 17Ad-22(e)(21)(iv) under the Act requires a covered clearing agency¹⁸ to establish, implement, maintain, and enforce written policies and procedures reasonably designed to be efficient and effective in meeting the requirements of its participants and the markets it serves.¹⁹ As described above, use of the Commission Billing service has significantly decreased, as the industry has change and the service no longer provides the same value that it had historically. As a result, NSCC currently operates the service at a financial loss. As such, NSCC has determined that it would be more efficient and effective in meeting the requirements of its Members and the market NSCC serves to eliminate the service. In doing so, NSCC would be able to redirect the resources being consumed by the Commission Billing service to other, more needed services. Therefore, the Commission finds that the proposed rule change is designed to help ensure that NSCC

¹⁷ Id.

¹⁸ A "covered clearing agency" means, among other things, a clearing agency registered with the Commission under Section 17A of the Exchange Act (15 U.S.C. 78q-1 et seq.) that is designated systemically important by the Financial Stability Oversight Counsel ("FSOC") pursuant to the Payment, Clearing, and Settlement Supervision Act of 2010 (12 U.S.C. 5461 et seq.). See 17 CFR 240.17Ad-22(a)(5)-(6). On July 18, 2012, FSOC designated NSCC as systemically important. U.S. Department of the Treasury, "FSOC Makes First Designations in Effort to Protect Against Future Financial Crises," available at <https://www.treasury.gov/press-center/press-releases/Pages/tg1645.asp>. Therefore, NSCC is a covered clearing agency.

¹⁹ 17 CFR 240.17Ad-22(e)(21)(iv).

is efficient and effective in meeting the requirements of its participants, consistent with Rule 17Ad-22(e)(21)(iv) under the Act.²⁰

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act, in particular the requirements of Section 17A of the Act²¹ 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-2018-004 be, and hereby is, APPROVED.²²

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²³

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Assistant Secretary

²⁰ Id.

²¹ 15 U.S.C. 78q-1.

²² In approving the proposed rule change, the Commission considered the proposals' impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

²³ 17 CFR 200.30-3(a)(12).