

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-95723; File No. SR-NSCC-2022-012)

September 9, 2022

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Make a Number of Clarifications and Enhancements to NSCC's Rules & Procedures

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 1, 2022, 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. NSCC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> 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 make a number of clarifications and enhancements to the Rules. Specifically, the proposed rule change would (i) clarify the confidential treatment of non-public information provided by participants to NSCC as part of ongoing membership requirements; (ii) remove outdated rules and procedures related to the

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

maintenance of Sponsored Accounts; (iii) update NSCC's rules concerning the acceptance and reliance upon instructions provided by its members; (iv) modify certain rules and procedures related to the DTCC Limit Monitoring Risk Management Tool; (v) remove rules, procedures, fees, and addenda related to the inactive Global Clearance Network Service; (vi) remove rules and fees related to the inactive International Link Service; (vii) clarify certain CNS Accounting Operation procedures; (viii) consolidate rules concerning the imposition of fines; (ix) clarify rules concerning admission to NSCC's premises; (x) remove reference to certain special services no longer provided by NSCC; and (xi) modify procedures concerning two-sided trade data received from service bureaus. NSCC is filing the proposed rule change for immediate effectiveness pursuant to Section 19(b)(3)(A) of the Act<sup>5</sup> and Rule 19b-4(f)(6) thereunder,<sup>6</sup> and as described in greater detail below.<sup>7</sup>

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 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.

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<sup>5</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>6</sup> 17 CFR 240.19b-4(f)(6).

<sup>7</sup> Capitalized terms not defined herein are defined in the Rules, available at [http://dtcc.com/~media/Files/Downloads/legal/rules/nscc\\_rules.pdf](http://dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf).

(A) Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The proposed rule change consists of modifications to NSCC's Rules to (i) clarify the confidential treatment of non-public information provided by participants to NSCC as part of ongoing membership requirements; (ii) remove outdated rules and procedures related to the maintenance of Sponsored Accounts; (iii) update NSCC's rules concerning the acceptance and reliance upon instructions provided by its members; (iv) modify certain rules and procedures related to the DTCC Limit Monitoring Risk Management Tool; (v) remove rules, procedures, fees, and addenda related to the inactive Global Clearance Network Service; (vi) remove rules and fees related to the inactive International Link Service; (vii) clarify certain CNS Accounting Operation procedures; (viii) consolidate rules concerning the imposition of fines; (ix) clarify rules concerning admission to NSCC's premises; (x) remove reference to certain special services no longer provided by NSCC; and (xi) modify procedures concerning two-sided trade data received from service bureaus. The proposed changes are discussed in detail below.

(i) Non-Public Information Provided to NSCC

NSCC recently adopted a proposed rule change to, among other things, revise certain provisions in the Rules relating to the confidentiality of information furnished by applicants, Members, and Limited Members (collectively, "participants") to NSCC.<sup>8</sup> Specifically, the proposed rule change amended Section 1.C. of Rule 2A (concerning membership application documents) and Section 3 of Rule 15 (concerning the

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<sup>8</sup> See Securities Exchange Act Release No. 93278 (October 8, 2021), 86 FR 57229 (October 14, 2021) (SR-NSCC-2021-007).

examination and provision of adequate assurance of the financial responsibility and operational capability of participants) to state that “[a]ny non-public information furnished to the Corporation pursuant to this Rule shall be held in confidence as may be required under the laws, rules and regulations applicable to the Corporation that relate to the confidentiality of records.” The proposed rule change was intended to provide one standard that NSCC would apply uniformly to all participants, which assures participants that such information would be held in confidence with appropriate control.

In addition to the requirements above, Section 2 of Rule 2B requires that participants submit to NSCC certain reports and information as part of their ongoing membership requirements and monitoring. Some of the reporting required by Section 2 of Rule 2B includes non-public information of participants. NSCC proposes to add conforming language to Rule 2B to clarify the confidential treatment of such information consistent with the requirements of Section 1.C. of Rule 2A and Section 3 of Rule 15. Specifically, NSCC proposes to amend Section 2.A. of Rule 2B to state that “[a]ny non-public information furnished to the Corporation pursuant to this Rule shall be held in confidence as may be required under the laws, rules and regulations applicable to the Corporation that relate to the confidentiality of records.” Non-public information may include certain reports, opinions and tax and cybersecurity confirmations as required by the Rules and any material non-public information or other information and data that NSCC reasonably determines is not made available to the public. The proposed change would further NSCC’s goal of setting forth one consistent standard that NSCC would apply uniformly to all participants, which assures participants that such information would be held in confidence with appropriate control.

(ii) Sponsored Accounts

NSCC's Rules refer to certain circumstances under which it has the discretionary authority to maintain Sponsored Accounts for its Members at The Depository Trust Company ("DTC"). NSCC Rule 29 provides that each Member shall be a participant in a Qualified Securities Depository (i.e., DTC), and if at any time a Member is not a participant of a Qualified Securities Depository, NSCC may cease to act for such Member pursuant to Rule 46. Rule 29 further provides that, during the interim between the time that such Member is no longer a participant in a Qualified Securities Depository and the time that NSCC ceases to act for the Member, such Member shall be required to effect securities settlement by physical delivery or in the discretion of NSCC through a Sponsored Account. Rule 46 also provides that NSCC may require a participant to effect securities settlement through a Sponsored Account, rather than through its own depository account, as part of a suspension or prohibition/limitation on a participant's access to services.

In addition, Procedure IX.B. provides procedures for the maintenance of Sponsored Accounts, including for Members that may choose not to maintain direct membership in a Qualified Securities Depository. Pursuant to this procedure, each Member would be assigned a Qualified Securities Depository account number and use that account as if it were a direct participant of the Qualified Securities Depository; however, the account would be maintained under the jurisdiction of NSCC, which would be solely responsible for all liabilities arising from the use of the account including the payment of fees to the Qualified Securities Depository. NSCC Rule 4 also contains several footnotes concerning the treatment of Clearing Fund deposits for such Sponsored

Accounts. Section 7 of Rule 4 further provides, in part, that NSCC may retain for up to two (2) years the Actual Deposits from Members who have Sponsored Accounts at DTC.

As a practical matter, NSCC does not currently maintain any Sponsored Accounts or plan to utilize Sponsored Accounts in the foreseeable future. NSCC does not believe there would be a plausible scenario in which it would continue to act for a Member and sponsor an account at DTC to settle for a Member whose participation at DTC has been terminated (whether voluntarily or through DTC ceasing to act for the participant). In the event that an NSCC Member was no longer an active participant of DTC, NSCC would cease to act for such Member pursuant to its authority under Rule 29 and implement the close-out procedures contemplated in Rule 18 and related NSCC policies and procedures (which do not currently contemplate the use of Sponsored Accounts). NSCC therefore proposes to revise the last sentence of Rule 29 to delete the reference to the discretionary use of Sponsored Accounts in a cease to act scenario and revise Rule 46 to remove references to NSCC's authority to require a participant to effect securities settlement through a Sponsored Account, rather than through its own depository account, as part of a suspension or prohibition/limitation of a participant's access to services.

NSCC also proposes to delete Procedure IX.B. concerning the procedures for maintaining Sponsored Accounts for Members that choose not to maintain direct membership in a Qualified Securities Depository. As noted above, NSCC Rule 29 provides that each Member shall be a participant in a Qualified Securities Depository, and all current NSCC Members are participants of DTC. NSCC does not currently provide Sponsored Accounts for any of its Members and does not have plans to provide

any new Sponsored Accounts at this time.<sup>9</sup> NSCC would also make conforming changes to Rule 4 to remove certain statements and footnotes discussed above regarding the collection and maintenance of Clearing Fund deposits for Sponsored Accounts, as these Rules would no longer be applicable in the absence of any Sponsored Accounts.

NSCC believes that removing rules and procedures related to inactive services and operations would improve the accuracy and clarity of its rules. Moreover, NSCC believes that removing Rules concerning inactive Sponsored Account services would avoid potential confusion with the sponsored membership program for NSCC's Securities Financing Transaction Clearing Service.<sup>10</sup> If NSCC would choose to offer Sponsored Accounts or a similar arrangement at some point in the future, NSCC would reevaluate the rules, procedures and operational processes necessary to provide such a service and would file any necessary proposed rule changes to effectuate the change.

(iii) Reliance on Instructions

NSCC Rule 39 provides, in part, that NSCC may accept or rely upon any instruction given by a participant, including wire transmission, physical delivery or delivery by other means of instructions recorded on magnetic tape or other media or of facsimile copies of instructions, in form acceptable to NSCC and that NSCC will not act upon any instruction purporting to have been given by a participant which is received by

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<sup>9</sup> NSCC believes that its last Sponsored Account may have been retired in 2011.

<sup>10</sup> See Securities Exchange Act Release No. 95011 (May 31, 2022), 87 FR 34339 (June 6, 2022) (SR-NSCC-2022-003). NSCC also filed the Securities Financing Transaction Clearing Service proposal as an advance notice. See Securities Exchange Act Release No. 94998 (May 27, 2022), 87 FR 33528 (June 2, 2022) (SR-NSCC-2022-801).

wire transmission or in the form of facsimile copies or magnetic tape or media other than written instructions.

NSCC proposes to revise Rule 39 to remove specific examples of methods of transmission of instructions to NSCC and instead provide that NSCC may accept or rely upon any instruction given in any form acceptable to the Corporation and in accordance with the Procedures. The proposed rule change is intended to remove outdated methods of submitting instructions (such as magnetic tape and facsimile copies) from the Rules and provide flexibility to accommodate alternative and evolving methods of submitting instructions to NSCC. NSCC believes the proposed change would promote the ongoing accuracy and clarity of its rules regarding the transmission of instructions to NSCC.

(iv) DTCC Limit Monitoring Risk Management Tool

*Background – DTCC Limit Monitoring*

NSCC provides its Members with a risk management tool called DTCC Limit Monitoring, which enables Members to monitor trading activity on an intraday basis of their organizations and/or their correspondent firms through review of post-trade data.<sup>11</sup> DTCC Limit Monitoring was implemented in 2014 in connection with industry-wide efforts to develop tools and strategies to mitigate and address the risks associated with the increasingly complex, interconnected, and automated market technology (such risks include, but are not limited to, trade input errors, software or trading algorithm errors, and inadequate controls for automated processes). Through this tool, NSCC Members can monitor trading activity against limits that they have pre-set and can review notifications

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<sup>11</sup> See Securities Exchange Act Release Nos. 71637 (February 28, 2014), 79 FR 12708 (March 6, 2014) (File No. SR-NSCC-2013-12) and 77990 (June 3, 2016), 81 FR 37229 (June 9, 2016) (File No. SR-NSCC-2016-001).



that are delivered when these pre-set limits are being approached and when they are reached. The limit monitoring tool is intended to supplement Members' existing internal risk management processes. Any actions Members determine to take in response to these alerts is their responsibility and is taken away from NSCC. DTCC Limit Monitoring is primarily discussed in NSCC Rule 54 and Procedure XVII.

DTCC Limit Monitoring is available to all NSCC Members; however, Rule 54 requires certain categories of Members to register for the DTCC Limit Monitoring tool. This requirement applies to: (1) any Member that clears trades for others; (2) any Member that submits transactions to NSCC's trade capture system either as a Qualified Special Representative ("QSR") or Special Representative, pursuant to Procedure IV (Special Representative Service); and (3) any Member that has established a 9A/9B relationship in order to allow another Member (either a QSR or Special Representative) to submit locked in trade data on its behalf. In addition, Procedure XVII requires, among other things, that Members registered for DTCC Limit Monitoring create and establish Risk Entities,<sup>12</sup> designate parameters to associate with each Risk Entity from certain parameter types that are established or permitted by NSCC from time to time, review reports and alerts on an on-going basis and, as necessary, modify established parameters to reflect current trading activities within each of their Risk Entities, and identify primary and secondary contacts within their firm for DTCC Limit Monitoring.

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<sup>12</sup> "Risk Entities" are defined by each Member using filtering criteria to focus on activity it seeks to monitor through the risk management tool, including that of its correspondents, or other entities or groups for which LM Trade Date Data is processed through the Members' account, including relating to subgroups within its own business.

### *Proposed Changes to DTCC Limit Monitoring*

NSCC proposes to revise Rule 54 and Procedure XVII to eliminate the requirement that certain specified Members register for the DTCC Limit Monitoring tool (i.e., those Members that clear trades for others, submit transactions to NSCC's trade capture system either as a QSR or Special Representative, or have established a 9A/9B relationship in order to allow another Member (either a QSR or Special Representative) to submit locked in trade data on its behalf). NSCC would also make conforming changes to Procedure XVII to reflect that Members *may*, but are *not required to*, create and establish Risk Entities, designate parameters to associate with each Risk Entity, review reports and alerts on an on-going basis and, as necessary, modify established parameters to reflect current trading activities within each of their Risk Entities, and identify primary and secondary contacts within their firm for DTCC Limit Monitoring. NSCC would continue to offer the DTCC Limit Monitoring tool to all Members on an optional basis but would no longer require that any particular type of Member register for the tool.

As noted above, DTCC Limit Monitoring was developed as part of a broader industry-wide effort to develop tools and strategies to mitigate and address trading risks. Since the implementation of DTCC Limit Monitoring in 2014, U.S. equity exchanges have also implemented risk controls to mitigate risks inherent with direct exchange transaction flow (such controls include, but are not limited to, credit limits, single order limits, and kill switch functionality).<sup>13</sup> These exchange risk controls are optional risk

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<sup>13</sup> See, e.g., Securities Exchange Act Release Nos. 88599 (April 8, 2020) 85 FR 20793 (April 14, 2020) (File No. SR-CboeBZX-2020-006); 88776 (April 29, 2020), 85 FR 26768 (May 5, 2020) (File No. SR-NYSE-2020-17); 88904 (May

management tools made available to exchange members to assist them in monitoring and managing their risks. DTCC Limit Monitoring is intended to supplement, and not replace, a Member's own internal systems and procedures or other tools, such as exchange pre-trade risk controls, available to the Member for managing its risks. NSCC also notes that while certain Members are currently required to register for DTCC Limit Monitoring, NSCC does not require Members to take any particular action(s) based on the output of the limit monitoring tool and any actions Members determine to take in response to these alerts is their responsibility and is taken away from NSCC. Moreover, NSCC does not use the DTCC Limit Monitoring tool for internal risk management purposes. NSCC therefore believes that providing DTCC Limit Monitoring on an optional basis is appropriate and consistent with industry practice and would not impact NSCC's own risk management practices.

(v) Global Clearance Network Service

NSCC Rule 62 and Addendum U discuss the Global Clearance Network Service ("GCN Service"), which was a foreign clearing, settlement, and custody service provided by NSCC in conjunction with banks, trust companies and other entities to any Member that is qualified to be a customer of the bank, trust company or other entity. The GCN Service was previously offered by the International Securities Clearing Corporation ("ISCC"), which was a wholly owned subsidiary of NSCC. ISCC ultimately transferred

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19, 2020) 85 FR 31560 (May 26, 2020) (File No. SR-NYSEArca-2020-43); 89225 (July 6, 2020), 85 FR 41650 (July 10, 2020) (File No. SR-NASDAQ-2020-034).

its core settlement services, including the GCN Service, to NSCC and withdrew from registration as a clearing agency.<sup>14</sup>

The GCN Service is a dormant service that is no longer utilized by NSCC's Members. NSCC therefore proposes to delete Rule 62 and Addendum U and any related fees for the GCN Service in Addendum A. NSCC believes that removing rules, procedures, and fees for this inactive service would improve the accuracy and clarity of the Rules. In the event NSCC would choose to resume offering these services, NSCC would reevaluate the rules, procedures and operational processes necessary to provide such services and would file any necessary proposed rule changes to effectuate the change.

(vi) International Links

NSCC Rule 61 discusses the establishment of links and the provision of certain services to Foreign Financial Institutions, including the International Link Service ("ILS"). ILS, like the GCN Service, was a service provided by ISCC. ISCC previously sponsored accounts at DTC for the purpose of providing Foreign Financial Institutions with custody services for their U.S. securities. ISCC transferred the ILS service, along with the GCN Service, to NSCC when it withdrew from registration as a clearing agency.<sup>15</sup>

Rule 61 currently provides, in part, that to the extent NSCC provides access to a Qualified Security Depository (i.e., DTC) to a Foreign Financial Institution, the Foreign

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<sup>14</sup> See Securities Exchange Act Release Nos. 42273, (December 27, 1999), 65 FR 311 (January 4, 2000) (File No. SR-NSCC-99-12) and 42274 (December 27, 1999) 65 FR 311 (January 4, 2000) (File No. SR-ISCC-99-01).

<sup>15</sup> See id.

Financial Institution would be required to collateralize its settlement obligations to NSCC on such terms and by such means as agreed to between NSCC and the Foreign Financial Institution. NSCC does not currently sponsor accounts or otherwise provide Foreign Financial Institutions access to DTC. Foreign Financial Institutions that are participants of NSCC and that wish to access the services of DTC maintain direct participation at DTC. NSCC therefore proposes to delete this sentence of Rule 61 to improve the accuracy and clarity of the Rules. NSCC would also remove any fees related to ILS from Addendum A of the Rules. In the event NSCC would choose to resume offering these services, NSCC would reevaluate the rules, procedures and operational processes necessary to provide such services and would file any necessary proposed rule changes to effectuate the change.

(vii) CNS Accounting Operation Procedures

*CNS Delivery Exemptions*

Section D of Procedure VII describes the procedures for controlling deliveries to CNS, including the process by which Members may submit instructions to NSCC to indicate which short positions they do not wish to settle and should be exempt from delivery. CNS provides for two levels of Exemption. Level 1 Exemptions allow a Member to designate that a portion of its short positions should not be automatically settled against its current Designated Depository position or against any securities which may be received into its Designated Depository account as a result of other depository activity. Level 2 Exemptions allow a Member to designate that a portion of its short positions should not be automatically settled against its current depository position, but that such a position may be satisfied by certain types of “qualified” activity in its Designated Depository account. Section D.2(b) of Procedure VII discusses the four types

of qualified activity, which allow short positions carrying Level 2 Exemptions to be settled. The list of qualified activity currently includes, among other things, “Receipts from Member’s Sub-Account,” which provides that, as a result of CNS sub-accounting, a Member may have a long position in a given security in one CNS account and a short position in the same security in another CNS account, and since both CNS accounts settle against a single Designated Depository Account, the Member may receive securities from itself.<sup>16</sup>

As noted above, Section D of Procedure VII is intended to describe certain Member rights and obligations associated with the *delivery* of securities to CNS. Section D.2. of the procedure specifically discusses the process by which Members submit instructions to indicate which short positions should be exempt from delivery and which types of qualified activity allow short positions carrying Level 2 Exemptions to be delivered and settled. Section D.2(b)(iv), however, discusses a hypothetical scenario under which a Member may *receive* securities, which is unrelated and not relevant to the delivery of securities to CNS under the exemption and qualified activity process. Accordingly, NSCC proposes to delete Section D.2(b)(iv) to remove potentially confusing procedural language and improve the clarity and accuracy of its Rules.<sup>17</sup>

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<sup>16</sup> See Section D.2(b)(iv) of Procedure VII of the Rules, supra note 7.

<sup>17</sup> CNS accounts settle against a single Designated Depository Account. It is therefore technically possible for a Member to deliver securities to NSCC’s CNS account to satisfy a short position in one CNS sub-account and receive the same securities from NSCC’s CNS account in connection with a long position in another CNS sub-account. However, the Member is not delivering those securities directly to, nor receiving securities directly from, itself, and the Member may also receive securities that have been delivered to NSCC’s CNS account by another Member. This is another potential area of confusion in the procedure that would be addressed by the proposed deletion of this rule text.

### *Fully-Paid-For Accounts*

NSCC's processing day is divided into two parts. It begins with a night cycle on the evening preceding the settlement day for which the work is being processed and is followed by a day cycle which ends on the settlement day for which the work is processed. Pursuant to Section E.5 of Procedure VII, if a Member with a long position and/or a position due for settlement on the next settlement day, in anticipation of receiving securities from NSCC as a result of the allocation process during the night or day cycle for that settlement day, instructs that securities within its possession or control be delivered on the next day and is subsequently not allocated the securities during the night or following day cycle, the Member may, in order to meet the "customer segregation" requirements of Rule 15c3-3 of the Exchange Act, during the day cycle for that settlement day instruct NSCC to transfer the position(s) which has not been allocated to a special CNS sub-account known as the "Long Free Account." NSCC will then debit the Member's settlement account for the value of the position in the Long Free Account.

Section E.5 of Procedure VII contains the following note related to the use of the Long Free Account.

The SEC has stated that: "any broker/dealer that takes advantage of proposed rule NSCC-82-25 must recall deficits from bank loan within shorter time intervals than those presently allowed under Rule 15c3-3(d)(1) of the Exchange Act. In the case of bank loan, broker/dealers will be expected to effect a recall within one Business Day instead of the two Business Days presently allowed.

The note refers to a no action letter issued by the Commission's Division of Trading and Markets (formerly, the Division of Market Regulation)<sup>18</sup> in connection with the adoption of Section E.5 of Procedure VII as part of NSCC filing SR-NSCC-82-25.<sup>19</sup>

NSCC proposes to delete this note from Section E.5 of Procedure VII. The note is potentially confusing to readers as it (1) refers to a "proposed rule" as opposed to the approved and existing procedure and (2) does not clearly identify the source of this Commission statement. Moreover, NSCC does not typically refer to Commission relief in its Rules. NSCC believes the proposed change would improve the clarity of its Rules and would conform Section E.5 of Procedure VII to more standard drafting practices for NSCC's Rules.

#### *CNS Buy-Ins*

Section J.1 of Procedure VII provides procedures for the recording of buy-ins for equities and corporate debt securities in CNS. The procedure provides, in part, that a Buy-In Retransmittal Notice shall include such information as NSCC may determine from time to time, including the identity of the entity that initiated the Buy-In against the Member.

NSCC proposes to revise this section of the procedure to clarify that Buy-In Retransmittal Notices must also be submitted within such times as determined by NSCC. NSCC believes the proposed change would improve its Rules by aligning the procedural

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<sup>18</sup> See Letter from Michael A. Macchiaroli, Assistant Director, Division of Market Regulation, Commission, to Robert J. Woldow, Senior Vice President and General Counsel, NSCC (May 10, 1984).

<sup>19</sup> See Securities Exchange Act Release No. 20948 (May 10, 1984) (File No. SR-NSCC-82-25).



language and requirements for Buy-In Retransmittal Notices with other submission requirements in the Rules (e.g., the submission of Buy-In Intents in Section J of Procedure VII and the submission of Buy-In Executions in Procedure X) and maintaining consistency across those procedural requirements.

(viii) Payment of Fines

NSCC Rule 17 discusses NSCC's authority to impose fines on a Member or Limited Member pursuant to the Rules. Pursuant to Rule 17, fines shall be payable in the manner and at such time as determined by NSCC from time to time. NSCC Rule 48 further discusses NSCC's authority to impose disciplinary proceedings for a Member of Limited Member for, among other things, a violation of the Rules. Section 1 of Rule 48 provides that such disciplinary proceedings may result in expulsion, suspension, limitation of or restriction on activities, functions and operations, fine or censure or any other fitting sanction.

NSCC proposes to delete Rule 17 and relocate the second sentence of Rule 17, which provides that fines shall be payable in the manner and at such time as determined by the Corporation from time to time, to Section 1 of Rule 48. NSCC would also make conforming changes to Rule 15 and Rule 56 to update and remove references to Rule 17, respectively. The proposed change is intended to consolidate the rules concerning NSCC's authority to impose fines into NSCC's disciplinary proceeding rules. The proposed change is not intended to result in a substantive change to NSCC's rules.

(ix) Admission to NSCC's Premises

NSCC Rule 27 provides, in part, that no person will be permitted to enter the premises of NSCC as the representative of any participant unless he has first been approved by NSCC and has been issued such credentials as NSCC may from time to time

prescribe and such credentials have not been canceled or revoked. In addition, such credentials must be shown on demand, and may limit the portions of the premises to which access is permitted thereunder.

NSCC proposes to revise Rule 27 to clarify that, to gain entry to NSCC's premises, such credentials must be prominently displayed while on NSCC's premises. NSCC does not believe the proposed change would impose any new material obligation or burden on its Members since Members are already required to obtain such credentials and display them on demand. The proposed rule change is simply intended to codify this expectation in NSCC's rules.<sup>20</sup>

(x) Clearing Centers

Section A of Procedure IX discusses NSCC's provision of Clearing Centers in a number of cities to serve as input/output facilities for the convenience of Members located near that office. Procedure XIII further provides definitions for the terms "Clearing Center"<sup>21</sup> and "Primary Clearing Center."<sup>22</sup> These Clearing Centers were initially established at a time when both the trading and clearance and settlement of securities operated in a more regional manner. Given the evolution of technology since the adoption of these procedures and the evolution of the national clearance and

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<sup>20</sup> NSCC notes that the proposed rule change would also align the requirements of NSCC Rule 27 with the requirements of Rule 17 of the DTC Rules, By-Laws and Organization Certificate ("DTC Rules"), providing greater consistency across the rules of NSCC and DTC. The DTC Rules are available on DTCC's public website, available at <https://www.dtcc.com/legal/rules-and-procedures>.

<sup>21</sup> Clearing Center is defined as "[a] branch facility of the Corporation"

<sup>22</sup> Primary Clearing Center is defined as "[t]he Clearing Center designated as such by a Member."

settlement system, NSCC no longer maintains regional Clearing Centers. As a result, NSCC proposes to delete Section A of Procedure IX in its entirety and the definitions of “Clearing Center” and “Primary Clearing Center” from Procedure XIII. NSCC believes that removing these outdated procedures would improve the accuracy and clarity of its Rules.

(xi) Data From Service Bureaus

Addendum J to the Rules contains a policy statement regarding the acceptance of trade data from service bureaus. Pursuant to Section 6 of Rule 7, NSCC may accept locked-in trade data from self-regulatory organizations (“SROs”) on a Member’s behalf for input into NSCC’s comparison system. NSCC has also previously received requests from Members to accept two-sided trade data from service bureaus in addition to locked-in data. In response, NSCC adopted the policy statements in Addendum J setting forth certain minimum requirements for service bureaus submitting two-sided trade data to NSCC. NSCC proposes to make certain clarifying updates to the Addendum.

NSCC proposes to revise the introductory paragraph of Addendum J to clarify that NSCC may accept from SROs and/or service bureaus, initial or supplemental trade data on behalf of Members for input into the Corporation’s Comparison Operation *with respect to debt securities* to conform the language in the Addendum to the requirements of Section 6 of Rule 7.<sup>23</sup> NSCC also proposes to delete references to specific SROs from which it accepts trade data (i.e., NYSE, NYSE Alternext, and National Association of

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<sup>23</sup> All equity transactions submitted for processing to NSCC, other than those submitted through the Obligation Warehouse pursuant to Rule 51 and Procedure II.A, must be compared prior to submission and submitted to NSCC on a locked-in basis for trade recording. See Securities Exchange Act Release No. 70263 (August 27, 2013), 78 FR 54349 (September 3, 2013) (SR-NSCC-2013-09).

Securities Dealers) and replace them with a more general reference to “SROs” to reflect that NSCC has accepted, and may continue to accept, additional SROs as trade data submitters since the adoption of the Addendum. In addition, NSCC would revise the Addendum to clarify that NSCC accepts locked-in trade data for input into its trade capture system, as opposed to its comparison system, as the transaction details for locked-in trades have already been compared.

Addendum J also currently requires that a service bureau must (a) be or become a Member of NSCC or (b) be affiliated with a Member of the Corporation. In addition, the Member (either the service bureau itself or its affiliated Member) must make a Clearing Fund deposit with NSCC. NSCC proposes to delete these requirements from Addendum J. NSCC does not believe it is necessary for a service bureau to be, or be affiliated with, a Member or to maintain a Clearing Fund deposit. The Members, on behalf of which a service bureau may submit trade data to NSCC, and not the service bureau itself, are responsible for maintaining Clearing Fund deposits to cover the risk associated with such positions. Moreover, the last paragraph of Addendum J currently provides NSCC with the authority to waive these requirements if it is in the best interests of NSCC and its Members to approve a service bureau so as to assure the prompt, accurate, and orderly processing and settlement of securities transactions or to otherwise carry out the functions of the Corporation. NSCC is proposing to eliminate these requirements as a matter of rule rather than through individual waivers, to improve the transparency and clarity of its Rules. Finally, NSCC would revise Addendum J to make certain non-substantive typographical corrections in the rule text.

(xii) Implementation Timeframe

NSCC would implement the proposed changes no earlier than thirty (30) days after the date of filing, or such shorter time as the Commission may designate. As proposed, a legend would be added to each affected Rule stating there are changes that were effective upon filing but have not yet been implemented. The legend would also state that NSCC would implement the proposed changes no earlier than thirty (30) days after the date of filing, or such shorter time as the Commission may designate. The legend would state that the legend would automatically be removed upon the implementation of the proposed changes. NSCC would announce the implementation date of the proposed changes by Important Notice posted to its website.

2. Statutory Basis

NSCC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. Section 17A(b)(3)(F) of Act<sup>24</sup> requires, in part, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. NSCC believes the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions and assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible for the reasons set for below.

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<sup>24</sup> 15 U.S.C. 78q-1(b)(3)(F).

*Proposed Clarifications to Confidential Treatment of Reports and Information*

The proposed addition of confidentiality requirements for participant information to NSCC Rule 2B would enable NSCC to maintain one consistent standard to apply uniformly to all participants, which assures participants that such information would be held in confidence with appropriate control. NSCC believes the proposed rule change would therefore help NSCC meet its obligations and help each participant better understand NSCC's obligations for maintaining the confidential information it shares with NSCC, which, in turn, may facilitate the sharing of such information and improve NSCC's ability to evaluate its participants' eligibility to maintain access to NSCC's clearance and settlement services. NSCC therefore believes the proposed rule change is consistent with promoting the prompt and accurate clearance and settlement of securities transactions by NSCC.

*Proposed Removal of Outdated Rules, Procedures, Addenda, and Fees*

The proposed rule change would remove outdated rules, footnotes, procedures, addenda, and fees related to inactive services, such as the provision of Sponsored Accounts, Clearing Centers, and the GCN Service and ILS. The proposed rule change would also remove outdated methods of submitting instructions to NSCC from the Rules and provide flexibility to accommodate both current alternative and evolving methods of submitting instructions to NSCC. These proposed changes are designed to improve the accuracy, clarity, and transparency of the NSCC Rules and thereby allow Members to conduct their business more efficiently and effectively in accordance with the Rules, which NSCC believes would promote the prompt and accurate clearance and settlement of securities transactions.

*Proposed Clarifications to CNS Accounting Operation Procedures*

The proposed rule change would also provide additional clarity to NSCC's CNS Accounting Operation Procedures. First, the proposed rule change would clarify NSCC's rules by deleting Section D.2(b)(iv) of Procedure VII, which discusses the possibility of a Member receiving such securities from itself through CNS. As noted above, Section D of Procedure VII is intended to describe certain Member rights and obligations associated with the *delivery* of securities to CNS; however, Section D.2(b)(iv) discusses a hypothetical scenario under which a Member may *receive* securities, which is unrelated and not relevant to the delivery of securities to CNS under the exemption and qualified activity process and may cause confusion to readers trying to understand the delivery and exemption process.

Second, the proposed rule change would remove from Section E.5 of Procedure VII a note referring to a no action letter issued by the Commission's Division of Trading and Markets (formerly, the Division of Market Regulation).<sup>25</sup> As discussed above, the note, as currently drafted, is potentially confusing to readers as it (1) refers to a "proposed rule" as opposed to the approved and existing procedure and (2) does not clearly identify the source of this Commission statement. Moreover, NSCC does not typically refer to Commission relief in its Rules. NSCC therefore proposes to remove the note to improve the clarity of its Rules and conform Section E.5 of Procedure VII to more standard drafting practices for NSCC's Rules.

Third, to the proposed rule change would revise Section J.1 of Procedure VII concerning CNS Buy-Ins to clarify that Buy-In Retransmittal Notices must also be

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<sup>25</sup> See supra note 18.

submitted within such times as determined by NSCC. NSCC believes the proposed change would improve its Rules by aligning the procedural language and requirements for Buy-In Retransmittal Notices with other submission requirements in the Rules (e.g., the submission of Buy-In Intents in Section J of Procedure VII and the submission of Buy-In Executions in Procedure X) and maintaining consistency across those procedural requirements.

Taken together, the proposed changes are designed to improve the accuracy, clarity, and transparency of NSCC's CNS Accounting Operation Procedures. NSCC believes the proposed rule change would allow Members to conduct their business more efficiently and effectively in accordance with the Rules and thereby promote the prompt and accurate clearance and settlement of securities transactions.

*Proposed Changes to Limit Monitoring Rules and Procedures*

NSCC proposes to revise Rule 54 and Procedure XVII to eliminate the requirement that certain Members register for the DTCC Limit Monitoring tool. NSCC would also make conforming changes to Procedure XVII to reflect that Members may, but are not required to, create and establish Risk Entities, designate parameters to associate with each Risk Entity, review reports and alerts on an on-going basis and, as necessary, modify established parameters to reflect current trading activities within each of their Risk Entities, and identify primary and secondary contacts within their firm for DTCC Limit Monitoring.

As described above, DTCC Limit Monitoring was developed as part of a broader industry-wide effort to develop tools and strategies to mitigate and address trading risks. Since the implementation of DTCC Limit Monitoring in 2014, U.S. equity exchanges



have also implemented risk controls to mitigate risks inherent with direct exchange transaction flow to assist them in monitoring and managing their risks.<sup>26</sup> Like these exchange risk controls, DTCC Limit Monitoring is intended to supplement, and not replace, a Member's own internal systems and procedures or other tools available to the Member for managing its risks. NSCC would continue to offer the DTCC Limit Monitoring tool to all Members on an optional basis but would no longer require that any particular type of Member register for the tool.

NSCC believes that providing DTCC Limit Monitoring on an optional basis is appropriate and consistent with industry practice. NSCC also notes that while certain Members are currently required to register for DTCC Limit Monitoring, NSCC does not require Members to take any particular actions based on the output of the limit monitoring tool. Any actions Members determine to take in response to these alerts is their responsibility and is taken away from NSCC. Moreover, NSCC does not use the DTCC Limit Monitoring tool for internal risk management purposes. NSCC therefore believes the proposed rule change would continue to provide NSCC's Members with a valuable risk management tool to supplement its own internal systems and procedures or other tools available to the Member for managing its risks, would not impact any actions taken as a result of Limit Monitoring, and would not have any impact on NSCC's own internal risk management activities. For these reasons, NSCC believes the proposed rule change would continue to promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.

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<sup>26</sup> See supra note 13.

*Proposed Changes Concerning Payment of Fines and Admission to Premises*

NSCC proposes non-material clarifying changes to its Rules concerning the payment of fines and admission to its premises. NSCC would eliminate Rule 17 and relocate the second sentence of Rule 17, which provides that fines shall be payable in the manner and at such time as determined by the Corporation from time to time, to Section 1 of Rule 48 and make conforming changes to Rules 15 and 56. The proposed change is intended to consolidate the rules concerning NSCC's authority to impose fines into NSCC's disciplinary proceeding rules and is not intended to result in a substantive change to NSCC's rules. NSCC also proposes to revise Rule 27 to clarify that, to gain entry to NSCC's premises, a Member representative's credentials must be prominently displayed while on NSCC's premises. NSCC does not believe the proposed change would impose any new significant obligation or burden on its Members since Members are already required to obtain such credentials and display them on demand. The proposed changes are intended to improve the accuracy, clarity, and transparency of NSCC's Rules. The proposed changes would therefore allow Members to conduct their business more efficiently and effectively in accordance with the Rules and thereby promote the prompt and accurate clearance and settlement of securities transactions.

*Proposed Clarifications to Service Bureau Requirements*

Finally, NSCC proposes several clarifying changes to Addendum J, which contains a policy statement regarding the acceptance of trade data from service bureaus. Specifically, NSCC proposes to revise the introductory paragraph of the Addendum to clarify that NSCC may accept from SROs and/or service bureaus, initial or supplemental trade data on behalf of Members for input into the Corporation's Comparison Operation

*with respect to debt securities* in conformance to Section 6 of Rule 7. NSCC also proposes to delete references to specific SROs from which it accepts trade data and replace them with a more general reference to “SROs” to reflect that NSCC has accepted, and may continue to accept, additional SROs as trade data submitters since the adoption of the Addendum. Additionally, NSCC would revise the Addendum to clarify that NSCC accepts locked-in trade data for input into its trade capture system, as opposed to its comparison system, as the transaction details for locked-in trades have already been compared. These proposed changes are designed to improve the accuracy, clarity, and transparency of the NSCC Rules and thereby allow Members to conduct their business more efficiently and effectively in accordance with the Rules, which NSCC believes would promote the prompt and accurate clearance and settlement of securities transactions.

NSCC would also delete the requirements that a service bureau must (a) be or become a Member of NSCC or (b) be affiliated with a Member of the Corporation and that the Member (either the service bureau itself or its affiliated Member) must make a Clearing Fund deposit with NSCC. NSCC does not believe it is necessary for a service bureau to be, or be affiliated with, a Member or to maintain a Clearing Fund deposit. The Members, on behalf of which a service bureau may submit trade data to NSCC, and not the service bureau itself, are responsible for maintaining Clearing Fund deposits to cover the risk associated with such positions. Moreover, the last paragraph of Addendum J currently provides NSCC with the authority to waive these requirements if it is in the best interests of NSCC and its Members to approve a service bureau so as to assure the prompt, accurate, and orderly processing and settlement of securities transactions or to

otherwise carry out the functions of the Corporation. NSCC is proposing to eliminate these requirements as a matter of rule rather than through individual waivers, to improve the transparency and clarity of its Rules. NSCC believes the proposed rule change would continue to promote the prompt and accurate clearance and settlement of securities transactions and assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.

For the reasons set forth above, NSCC believes the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions and assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>27</sup>

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

NSCC does not believe that the proposed rule change would have any adverse impact, or impose any burden, on competition. These proposed changes are primarily designed to improve the accuracy, clarity, and transparency of the NSCC Rules. Specifically, the proposed changes to Rule 2B concerning NSCC's obligations for maintaining non-public information of its participants would only impose obligations on NSCC and would not impose any new requirements on its participants. Additionally, the proposed rule change would remove outdated rules, procedures, addenda, and fees related to inactive services or outdated methods of data transmission. The proposed rule change would also provide additional clarity to NSCC's CNS Accounting Operation Procedures, which would be equally applicable to all Members. In addition, the proposed rule change

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<sup>27</sup> 15 U.S.C. 78q-1(b)(3)(F).

would remove certain requirements around the DTCC Limit Monitoring tool and make Limit Monitoring available to all Members on an optional basis. The proposed changes to Limit Monitoring would not impose any new requirements on Members or impact the actions Members may take in response to Limit Monitoring. In addition, the proposed rule change would consolidate the rules concerning NSCC's authority to impose fines into NSCC's disciplinary proceeding rules and clarify the requirements for admission to NSCC's premises. These proposed changes would apply equally to all Members and would not impose any new significant obligation or burden on Members. The proposed changes are simply intended to improve the accuracy, clarity, and transparency of NSCC's Rules. Finally, the proposed rule change would clarify policy statements regarding the acceptance of trade data from service bureaus. These proposed changes would not impose any new requirements on service bureaus and would in fact eliminate certain requirements for service bureaus. The proposed rule change therefore would not materially affect the rights or obligations of NSCC Members. As a result, NSCC does not believe that the proposed rule change would have any adverse impact, or impose any burden, on competition.

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

NSCC has not received or solicited any written comments relating to this proposal. If any written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment

submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit-comments>. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at [tradingandmarkets@sec.gov](mailto:tradingandmarkets@sec.gov) or 202-551-5777.

III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

Because the foregoing proposed rule change does not:

- (i) significantly affect the protection of investors or the public interest;
- (ii) impose any significant burden on competition; and
- (iii) become operative for 30 days from the date on which it was filed, or such

shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>28</sup> and Rule 19b-4(f)(6) thereunder.<sup>29</sup>

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.

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<sup>28</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>29</sup> 17 CFR 240.19b-4(f)(6).

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2022-012 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-2022-012. 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-2022-012 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.<sup>30</sup>

J. Matthew DeLesDernier  
Deputy Secretary

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<sup>30</sup> 17 CFR 200.30-3(a)(12).