

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-101487; File No. SR-NSCC-2024-008)

October 31, 2024

Self-Regulatory Organizations; National Securities Clearing Corporation; Order  
Approving of Proposed Rule Change to Decommission the ID Net Service

## **I. INTRODUCTION**

On September 12, 2024, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR- NSCC-2024-008 (“Proposed Rule Change”) 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> to amend the NSCC Rules & Procedures (“Rules”) to decommission the ID Net service (“ID Net Service” or “ID Net”).<sup>3</sup> The Proposed Rule Change was published for comment in the Federal Register on September 27, 2024.<sup>4</sup> The Commission has received no comments on the Proposed Rule Change. For the reasons discussed below, the Commission is approving the Proposed Rule Change.

## **II. BACKGROUND**

NSCC provides central counterparty services, including clearing, settlement, risk management, and a guarantee of completion, for virtually all broker-to-broker trades involving equity securities, corporate and municipal debt securities, and certain other

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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> Capitalized terms not defined herein are defined in the Rules, available at [www.dtcc.com/legal/rules-and-procedures.aspx](http://www.dtcc.com/legal/rules-and-procedures.aspx).

<sup>4</sup> See Securities Exchange Act Release No. 101131 (Sept. 23, 2024), 89 FR 79324 (Sept. 27, 2024) (File No. SR- NSCC-2024-008) (“Notice of Filing”).

securities. Within NSCC’s Continuous Net Settlement system (“CNS”), which is NSCC’s system for accounting and settling CNS-eligible securities,<sup>5</sup> all eligible compared and recorded transactions for a particular settlement date are netted by issue into one net long (buy), net short (sell) or flat position for each Member, and those positions are further netted with positions of the same issue that remain open after their originally scheduled settlement date. As central counterparty, NSCC becomes the contra-party for settlement purposes, assuming the obligation of its Members that are receiving securities to receive and pay for those securities and the obligation of Members that are delivering securities to make the delivery. CNS netting thus reduces the number of securities movements required to settle transactions.

The ID Net Service is a joint service offering of NSCC and its affiliate, The Depository Trust Company (“DTC”), available on a voluntary basis to broker/dealers that are participants of both NSCC and DTC and banks that are participants of DTC.<sup>6</sup> ID Net allows broker/dealer users to net their affirmed institutional transactions (“Affirmed Transactions”) with their CNS transactions.

An institutional transaction is one between a broker/dealer and its institutional customer. Such institutional customers are not Participants of DTC. Unlike exchange trades and most prime broker trades, most institutional delivery transactions do not

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<sup>5</sup> See NSCC Rule 11 (describing the CNS System) and Procedure VII (describing the CNS Accounting Operation), supra note 3. To be CNS-eligible, a security must be eligible for book-entry transfer on the books of DTC and must be capable of being processed in the CNS system.

<sup>6</sup> DTC also filed a proposed rule change with the Commission in connection with decommissioning the ID Net Service. See Securities Exchange Act Release No. 101132 (Sept. 23, 2024), 89 FR 79320 (Sept. 27, 2024) (File No. SR-DTC-2024-010).

currently flow through CNS but instead settle at DTC on a trade-for-trade basis.<sup>7</sup> DTC may accept Affirmed Transactions submitted by a utility that provides a matching service (“Matching Utility”).<sup>8</sup> The counterparties on an Affirmed Transaction submitted by a Matching Utility to DTC are a (i) DTC Participant, acting as clearing broker to the Affirmed Transaction and a (ii) DTC Participant bank, acting as the custodian for an institutional customer. The Affirmed Transaction is processed on a trade-for-trade basis at DTC unless it is designated for ID Net processing by the Matching Utility and meets certain eligibility requirements. In order for an Affirmed Transaction to be eligible for processing in ID Net, (i) both counterparties to the Affirmed Transaction must be a Member of NSCC and a Participant of DTC, or a bank that is a Participant of DTC, that has subscribed to ID Net and (ii) the transaction must be (a) in a security eligible for processing through CNS and (b) affirmed within established timeframes set forth in the DTC Settlement Service Guide.<sup>9</sup>

If an Affirmed Transaction is designated for ID Net and meets the eligibility criteria, then DTC will direct the transaction to ID Net, which facilitates the netting of a broker/dealer’s side of an Affirmed Transaction with that broker/dealer’s CNS activity, via omnibus accounts that are maintained by NSCC at DTC and designated for ID Net

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<sup>7</sup> See DTC Settlement Service Guide, [available at](http://www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Settlement.pdf) [www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Settlement.pdf](http://www.dtcc.com/-/media/Files/Downloads/legal/service-guides/Settlement.pdf).

<sup>8</sup> The Matching Utility must be (i) a clearing agency registered with the Commission, (ii) an entity that has obtained an exemption from such registration from the Commission, or (iii) a “qualified vendor” for trade confirmation/affirmation services as defined by the rules of a self-regulatory organization. See DTC Settlement Service Guide, *supra* note 7, at 40. TCC ITP Matching (US) LLC (“ITP”), an NSCC and DTC affiliate, is currently the only Matching Utility that submits Affirmed Transactions to DTC. See Notice of Filing, *supra* note 4, at 79325 n.6.

<sup>9</sup> See DTC Settlement Service Guide, *supra* note 7, at 40-41.

activity. If a bank is a counterparty to the ID Net-eligible Affirmed Transaction, then it will either receive or deliver the subject shares versus payment, on a trade-for-trade basis, via the ID Net omnibus accounts.

While ID Net allows broker/dealers to realize the benefit of netting for Affirmed Transactions by allowing the broker/dealer to net its ID Net-eligible Affirmed Transactions with its transactions in CNS, banks using ID Net settle ID Net transactions on a trade-for-trade basis as they would for other Affirmed Transactions. In this regard, NSCC states that ID Net's main benefit is to streamline clearance and settlement of ID Net-eligible Affirmed Transactions for broker/dealers.<sup>10</sup>

### **III. DESCRIPTION OF THE PROPOSED RULE CHANGE**

NSCC states that as part of NSCC's and DTC's continuous evaluations to the efficiency and effectiveness of the services they provide and in order to streamline and simplify their services and processes, NSCC and DTC have identified ID Net as an underused service that may be eliminated as part of modernization efforts.<sup>11</sup> They each propose to decommission the ID Net Service due to factors including: (i) limited uptake and usage of the service since its adoption; (ii) the operational complexity of maintaining the service, which also connects with and impacts other core clearance and settlement

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<sup>10</sup> See Notice of Filing, supra note 4, at 79325.

<sup>11</sup> Id.

processes;<sup>12</sup> and (iii) the prior elimination of the NSCC Clearing Fund offset for ID Net transactions.<sup>13</sup>

To implement the proposed change, NSCC would remove Rule 65 and Procedure XVI from the Rules and make other conforming changes throughout the Rules to reflect the decommission of the service. The ID Net Service is primarily described in NSCC Rule 65 and Procedure XVI of the Rules, and these would no longer be necessary or relevant upon the decommission of the ID Net Service. As a result, Rule 65 and Procedure XVI would be deleted in their entirety and would be reserved for future use by NSCC.

NSCC also proposes removing associated defined terms “Eligible ID Net Security” and “ID Net Subscriber” from Rule 1 and remove a reference to ID Net transactions from the definition of “Net Unsettled Position” in Rule 1. In addition, NSCC would remove Section 1(f) of Rule 3, concerning certain lists required to be maintained by NSCC, to reflect that NSCC would no longer be required to maintain a list of Eligible ID Net Securities and would make a conforming change to renumber existing Section 1(g) of Rule 3 to Section 1(f). NSCC would also remove Section 2(a)(vii) of Rule 18, which concerns procedures for when NSCC ceases to act for a Member, to reflect that

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<sup>12</sup> NSCC states that this complexity includes (i) special eligibility checks versus the ID Net eligibility criteria and (ii) leveraging of the omnibus accounts to simultaneously allow (a) a bank to process ID Net-eligible transactions on a trade-for-trade basis and (b) the broker/dealer side of an ID Net-eligible transaction to settle via CNS. Notice of Filing, supra note 4, at 79325 n.9.

<sup>13</sup> In 2021, NSCC adopted a proposed rule change to remove transactions processed through the ID Net Service from the calculation of Members’ Required Deposits to the Clearing Fund. See Securities Exchange Act Release No. 93070 (Sep. 20, 2021), 86 FR 53125 (Sep. 24, 2021) (SR-NSCC-2021-011).

uncompleted ID Net Service transactions would no longer be considered for purposes of determining excluded transactions in a cease to act scenario.

Additionally, NSCC proposes modifying Procedure VII, concerning its CNS Accounting Operation, to remove various references to the ID Net Service and ID Net transactions. Specifically, NSCC would revise the Introduction in Section A to remove a reference to Eligible ID Net Securities being included in CNS Securities for purpose of Procedure VII. NSCC would also modify Section D.1., concerning the process for exemptions from deliveries, to remove a statement regarding the treatment of securities available in an agency account established at a Qualified Securities Depository for the processing of transactions through the ID Net Service. In addition, NSCC would modify Section E.4, concerning the allocation algorithm for CNS deliveries, to remove a statement regarding the treatment of long positions in a receiving ID Net Subscriber's agency account established at a Qualified Securities Depository. NSCC would also delete Section H.5. of Procedure VII concerning the reporting of ID Net transactions on NSCC's Miscellaneous Activity Report and make conforming changes to renumber subsequent rules in Section H.

Finally, NSCC proposes updating Section I.(A)(1)(b) of Procedure XV, concerning NSCC's Clearing Fund calculations, to remove a reference to ID Net transactions from the Mark-to-Market component of the Clearing Fund formula.

NSCC believes that the decommission of the ID Net Service would have minimal impact on its Members, as only 13 broker/dealers and 20 banks are subscribed to the ID

Net Service and the service is not used by all of those broker/dealers and banks.<sup>14</sup> Furthermore, without ID Net, Affirmed Transactions can simply settle trade-for-trade, directly between the counterparties like they already do. NSCC also notes that there would be minimal impact to risk management from both an NSCC and Member perspective given that the ID Net Service is a non-guaranteed service of NSCC<sup>15</sup> and there is no longer a Clearing Fund offset for ID Net transactions.<sup>16</sup>

NSCC states that it has performed direct outreach to Members that use the ID Net Service and has also announced its plans to decommission the ID Net Service in an Important Notice, and that there have been no material objections or concerns raised by Members.<sup>17</sup>

#### **IV. DISCUSSION AND COMMISSION FINDINGS**

Section 19(b)(2)(C) of the Act<sup>18</sup> 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. After careful review of the Proposed Rule Change, the Commission finds that the Proposed Rule Change is consistent with the requirements of

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<sup>14</sup> NSCC states that active users of the ID Net service constitute less than 10% of NSCC's full-service Members. NSCC believes that ID Net usage has been limited since its implementation in 2008 because, in part, the service needs both parties to an ID Net transaction to be subscribers of ID Net, which is not always the case. See Notice of Filing, supra note 4, at 79325 n.10.

<sup>15</sup> See NSCC Rule 65, Section 5(c), supra note 3.

<sup>16</sup> See supra note 13.

<sup>17</sup> See Notice of Filing, supra note 4, at 79326; see also NSCC Important Notice regarding decommission of the ID Net Service, available at <https://www.dtcc.com/-/media/Files/pdf/2023/8/8/a9327.pdf>.

<sup>18</sup> 15 U.S.C. 78s(b)(2)(C).

the Act and the rules and regulations thereunder applicable to NSCC. In particular, the Commission finds that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act.<sup>19</sup>

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

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency, such as NSCC, be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions.<sup>20</sup> The Commission believes that the Proposed Rule Change is consistent with Section 17A(b)(3)(F) of the Act for the reasons stated below.

The Proposed Rule Change would modify the NSCC Rules to reflect the decommission of the ID Net Service. As discussed in Parts II and III, ID Net is an underused service that is operationally complex to maintain, and its main benefit is to broker/dealers' streamline clearance and settlement of ID Net-eligible Affirmed Transactions, which may otherwise settle on a trade-for-trade basis. As such, ID Net's decommission would have minimal impact on NSCC and its Members considering its limited usage. Affirmed Transactions that would have otherwise been directed to ID Net will settle trade-for-trade directly between counterparties, like most other Affirmed Transactions currently do. Therefore, these transactions will continue to settle promptly and accurately, as other Affirmed Transactions do, outside of the ID Net Service. For these reasons, the Commission finds that the Proposed Rule Change should continue to support NSCC's ability to provide prompt and accurate clearance and settlement of

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<sup>19</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>20</sup> Id.

securities transactions, consistent with Section 17A(b)(3)(F) of the Act.<sup>21</sup>

## **V. CONCLUSION**

On the basis of the foregoing, the Commission finds that the Proposed Rule Change is consistent with the requirements of the Act, and in particular, with the requirements of Section 17A of the Act<sup>22</sup> and the rules and regulations promulgated thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act<sup>23</sup> that proposed rule change SR- NSCC-2024-008, be, and hereby is, APPROVED.<sup>24</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>25</sup>

**Vanessa A. Countryman,**

*Secretary.*

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<sup>21</sup> Id.

<sup>22</sup> 15 U.S.C. 78q-1.

<sup>23</sup> 15 U.S.C. 78s(b)(2).

<sup>24</sup> In approving the Proposed Rule Change, the Commission considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>25</sup> 17 CFR 200.30-3(a)(12).