

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-104687; File No. SR-NSCC-2026-001]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change Concerning the Clearing of Exchange-Trade Funds with Options as Underlying Components

January 26, 2026.

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 January 16, 2026, 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 the NSCC Rules & Procedures (“NSCC Rules”) to facilitate clearing for the primary market creation and redemption of exchange-traded funds (“ETFs”) that have options as underlying components.³

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Capitalized terms not defined herein shall have the meaning assigned to such terms in the NSCC Rules, available at www.dtcc.com/legal/rules-and-procedures.

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.

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

1. Purpose

The primary purpose of the proposed rule change is to amend the NSCC Rules to facilitate clearing for the primary market creation and redemption of ETFs that have options as underlying components. Specifically, the proposed rule change would implement new messaging connectivity between NSCC and The Options Clearing Corporation (“OCC”) and allow NSCC to submit instructions to OCC on behalf of their participants concerning position transfers or adjustments of ETF option components in connection with “in-kind” ETF creation and redemption orders. The proposed rule change is discussed in detail below.

Background

ETFs (referred to as “index receipts” in the NSCC Rules) are marketable securities that track stock indices, commodities, bonds, or baskets of assets. ETFs are listed on exchanges and are traded throughout the trading day. Shares of ETFs are created and redeemed in the primary market and are traded on listed exchanges in the secondary

market. Each share of an ETF represents an undivided interest in the underlying assets of the ETF.

NSCC facilitates central counterparty (“CCP”) clearing and settlement of the creation and redemption of ETF shares in the primary market as well as clearing of ETF trades in the secondary market. The participants in the ETF primary market typically consist of the issuers of ETFs (“ETF Sponsors”), custodian banks (“ETF Agents,” also referred to as “Index Receipt Agents” in the NSCC Rules), and brokers/dealers that have agreements directly with ETF Sponsors to allow the brokers/dealers to place orders for the creation and redemption of ETF shares (“Authorized Participants” or “APs”). Both the ETF Agents and APs are Members of NSCC.

In general, APs create and redeem ETF shares from the ETF Sponsors in blocks called “creation units.” An AP that purchases a creation unit of ETF shares delivers a “basket” of securities and other assets to the ETF Agent, and then receives the creation unit of ETF shares in return for those assets. The redemption process is the reverse of the creation process: the AP redeems a creation unit of ETF shares in exchange for a basket of securities and other assets. These creation and redemption baskets are referred to as “trading baskets.”

NSCC supports the creation and redemption of ETFs on both a “cash-only” and “in-kind” basis. “Cash-only” creations and redemptions represent an exchange of ETF shares for cash rather than for the component securities and other assets in the trading basket. “In-kind” ETF creations and redemptions represent an exchange of ETF shares for the component securities and other assets in the trading basket.

NSCC facilitates “in-kind” creation and redemption of ETFs with trading baskets comprised of underlying securities that are cleared by NSCC and settled by its affiliate clearing agency, The Depository Trust Company (“DTC”). However, some ETFs have trading baskets containing securities that are not eligible for clearing at NSCC, such as listed options, which are cleared and settled by OCC.⁴ While the creation of ETF units with underlying option components may currently be done on a “cash-only” basis at NSCC, ETF market participants typically handle the redemption of such ETFs on an “ex-clearing” basis (e.g., outside of traditional clearing mechanisms and NSCC).

APs and ETF Agents have raised concerns regarding the existing processes for clearing ETFs that have option components in their trading baskets. The current ETF creation process requires ETF market participants to create the ETF shares at NSCC and effectuate the simultaneous transfer or adjustment of the associated underlying option components at OCC. Specifically, APs and ETF Agents must initiate a “cash-only” creation at NSCC, and the ETF Agent uses the cash received from the order to purchase the necessary underlying options components for the ETF through a prime broker, which are cleared by OCC. Conversely, the entire redemption process is generally managed ex-clearing, requiring multiple manual steps to ensure completion, including the tracking, pricing, validation and ultimate execution of options positions transfers at OCC by the APs, ETF Agents and prime brokers, which are required in connection with the redemption process. This process, as it stands, is fragmented and heavily dependent on manual intervention, which increases the potential for errors and operational risk. This

⁴ OCC is the world’s largest equity derivatives clearing organization and the sole clearing agency for standardized equity options listed on national securities exchanges registered with the Commission.

lack of integration and automation has been identified as a significant pain point by industry participants. In addition, the processing of these transactions outside of clearing, and without the benefit of NSCC’s CCP guaranty, can introduce counterparty credit risks among participants. NSCC also understands that the bilateral processing of these transactions outside a CCP model may result in additional balance sheet costs to APs.

NSCC, OCC, and key industry stakeholders have closely collaborated to design a new industry messaging interface between NSCC, OCC and ETF market participants to facilitate the “in-kind” creation and redemption of ETFs with option components at NSCC, mitigating the aforementioned current state challenges. While the proposed rule change would provide ETF industry participants with the ability to process both “in-kind” creations and redemptions of ETFs with option components, NSCC understands that industry participants would initially use this new functionality primarily for ETF redemption orders, which currently present the largest challenges for industry participants. However, NSCC believes that by addressing industry concerns and reducing operational burdens associated with the redemption of ETFs with option components, this may in turn promote and facilitate primary market creation and redemption activity more broadly for such ETFs.

Proposed Changes

NSCC proposes to amend the NSCC Rules to facilitate clearing for the primary market creation and redemption of ETFs with options as underlying components, and particularly the “in-kind” redemption of such ETFs. Under the proposal, NSCC would process the intake of ETF creation/redemption orders and any underlying securities that are cleared by NSCC and settled by DTC. For underlying option components that are

ineligible for clearance through NSCC, such as FLEX options and covered call options, NSCC would seamlessly route instructions to OCC for the processing of any option position transfers or adjustments associated with the creation/redemption order.⁵ NSCC is working with OCC and other stakeholders to develop a messaging interface that would operate similar to the existing messaging interface between NSCC and OCC used for NSCC’s Automated Customer Account Transfer Service (“ACATS”) in transmitting such instructions to OCC.⁶ NSCC would guarantee settlement of the ETFs as well as any underlying components eligible for clearance and settlement at NSCC. However, NSCC would not guarantee position transfers, position adjustments or related activity concerning the underlying option components at OCC.

NSCC proposes to adopt new rules in Section F of Procedure II, including new sub-section 3 of Section F, to describe additional requirements related to the creation and redemption of ETFs with option components. The proposed rules would provide that ETF component securities that are options (“Index Receipt Option Components”) that are not eligible for settlement or processing through the facilities of NSCC may be eligible for position transfer or adjustments through another Registered Clearing Agency or

⁵ OCC recently amended the OCC By-Laws to provide its Clearing Members with additional certainty regarding the circumstances under which they may submit adjustments to their positions with OCC by aligning OCC’s By-Laws with Exchange rules regarding off-floor transfers of options positions. The rule change was intended, in part, to remove any uncertainty about whether adjustment of options positions at OCC is permissible to support ETF creations and redemptions. See Securities Exchange Act Release No. 103521 (July 22, 2025), 90 FR 35322 (July.. 25, 2025) (File No. SR-OCC-2025-010).

⁶ ACATS is a non-guaranteed service provided by NSCC that enables Members to effect transfers of customer accounts among themselves. See Rule 50 (Automated Customer Account Transfer Service) and Procedure XVIII (ACATS Settlement Accounting Operation) of the NSCC Rules, supra note 3.

derivatives clearing organization (an “Options Clearing Organization,” such as OCC). The proposed rule would further state that NSCC may provide instructions to the applicable Options Clearing Organization concerning position transfers or adjustment of Index Receipt Option Components in connection with the creation and redemption of Index Receipts, and that any transactions, position transfers, position adjustments, or settlements related to Index Receipt Option Components shall be governed by and subject to rules of the applicable Options Clearing Organization. These instructions would be created by using the daily portfolio composition files provided to NSCC by the ETF Agents to identify the underlying option components within the fund to be transferred at OCC.⁷

In addition, the proposed rule would provide that NSCC would not be responsible for the completeness or accuracy of any instruction received from an Index Receipt Agent and transmitted to an Options Clearing Organization with respect to Index Receipt Option Components and would not be responsible for any action taken, or any delay or failure to take any action by the Options Clearing Organization, in connection with the transfer or adjustment of such Index Receipt Option Components. The proposed rules would also clarify that NSCC’s guaranty would not apply to position transfers, position adjustments or any associated settlements for Index Receipt Option Components and that NSCC would not be liable for any obligations of any Options Clearing Organization transferring such Index Receipt Option Components nor shall the Clearing Fund or other assets of NSCC be available to such Options Clearing Organization. As noted above,

⁷ See Section F.1. of Procedure II (Trade Comparison and Recording Service) of the NSCC Rules, supra note 3.

NSCC would only guarantee the settlement of ETFs and underlying components that are eligible for clearing at NSCC.

The proposed rule change would also allow NSCC to automatically process payment orders between APs and ETF Agents to offset CNS⁸ cash debit amounts associated with the value of the option components that have been instructed for position movement at OCC. For example, in a redemption scenario, CNS credits the ETF Agent the ETF shares and debits the ETF Agent the value of the ETF shares. In the case of an ETF with option components, this would create exposure for the ETF Agent as they are debited for the value of the entire ETF when they have already instructed for the underlying option components to be transferred at the OCC. Through industry discussions, ETF market participants have agreed that the AP should issue a credit through a special payment order to the ETF Agent to offset their CNS debit, reducing ETF Agent's exposure on the order. NSCC would automate the processing of such payment orders.

⁸ CNS is NSCC's automated accounting and securities settlement system that centralizes and nets the settlement of compared and recorded securities transactions and maintains an orderly flow of security and money balances. CNS provides clearance for equities, ETFs, corporate bonds, unit investment trusts, and municipal bonds that are eligible for book-entry transfer at DTC. Within CNS, all eligible compared and recorded transactions for a particular settlement date are netted by issue into one position per Member. The position can be net long (buy), net short (sell) or flat. As a continuous net system, those positions are further netted with positions of the same issue that remain open after their original scheduled settlement date (usually one business day after the trade date or T+1), so that transactions scheduled to settle on any day are netted with fail positions (i.e., positions that have failed in delivery or receipt on the settlement date), which results in a single deliver or receive obligation for each Member for each issue in which the Member has activity.

Accordingly, NSCC proposes to add new rules to provide that, with respect to the redemption of index receipts containing Index Receipt Option Components, Authorized Participants may be required to make a cash payment to the Index Receipt Agents, which will be facilitated by NSCC, equal to the value of the Index Receipt Option Components. Alternatively, for the creation of index receipts containing Index Receipt Option Components, Index Receipt Agents may be required to make a cash payment to the Authorized Participant, which will be facilitated by NSCC, equal to the value of the Index Receipt Option Components. These cash payments are intended to offset corresponding debits in CNS for the value of the Index Receipt Option Components transferred through an Options Clearing Organization.

Finally, NSCC would amend existing Section F.1. of Procedure II to incorporate the inclusion of certain information regarding Index Receipt Option Components in the submission and reporting of the composition of ETFs for creations and redemptions. Specifically, the proposed rule change would require that Index Receipt Agents include in portfolio composition files information concerning any component securities that are Index Receipt Option Components to be transferred through an Options Clearing Organization (e.g., the shares and their associated quantities). The proposed rule change would also clarify that the Portfolio Reports made available to Members by NSCC would include information regarding Index Receipt Option Components. The composition data within these Portfolio Reports may be used by NSCC to process index receipt creations and redemptions on the next Business Day.

The proposed rule change would address industry concerns and reduce operational burdens by allowing NSCC to function as the central hub for creation and

redemption order processing for ETFs with option components. The proposal would alleviate the operational burdens currently placed on APs, ETF Agents, and prime brokers, reduce bilateral counterparty risks by applying NSCC's guaranty to these transactions, and reduce balance sheet costs for APs. Accordingly, the proposed rule change would improve the overall efficiency of the creation/redemption process for ETFs with option components and reduce risk between counterparties and across the industry.

Implementation Timeframe

NSCC would implement the proposed rule change by no later than 60 Business Days after the approval of the proposed rule change by the Commission. NSCC would announce the effective date of the proposed changes by an 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. Specifically, NSCC believes that the proposed changes are consistent with Section 17A(b)(3)(F) of the Act⁹ for the reasons set forth below.

Section 17A(b)(3)(F) of Act¹⁰ 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 foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions. The proposed rule change is designed to facilitate clearing for the primary market in-kind creation and redemption of ETFs with

⁹ 15 U.S.C. 78q-1(b)(3)(F).

¹⁰ Id.

options as underlying components. Under the proposal, NSCC would expand its ETF clearing services to include the processing of in-kind ETF creation/redemption orders for ETFs with options as underlying components. NSCC would guarantee settlement of such ETFs as well as any underlying components of such ETFs that are eligible for clearance and settlement at NSCC and would seamlessly route instructions concerning the underlying option components to OCC for the processing of any option position transfers or adjustments associated with the creation/redemption order (which would not be guaranteed and settled by NSCC). As described above, market participants primarily manage this process outside of NSCC today (i.e., ex-clearing) through fragmented and cumbersome manual workflows, and without the benefit of NSCC's CCP guaranty, which introduces operational and counterparty credit risks among market participants. NSCC also understands that the bilateral processing of these transactions outside of a CCP model may result in additional balance sheet costs to APs. The proposed rule change would address industry concerns and reduce operational burdens by allowing NSCC to function as the central hub for creation and redemption order processing for ETFs with option components, with NSCC guaranteeing settlement of these ETFs as well as any underlying components eligible for clearing at NSCC and routing instructions concerning the underlying option components to OCC. In this way, the proposed rule change would alleviate the operational burdens currently placed on APs, ETF Agents, and Prime Brokers, reduce bilateral counterparty risks by applying NSCC's guaranty to these transactions, and reduce balance sheet costs for APs. Accordingly, the proposed rule change would improve the overall efficiency of the creation/redemption process for ETFs with option components and reduce risk between counterparties and across the industry.

NSCC therefore believes that the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions and foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions in accordance with Section 17A(b)(3)(F) of Act.

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

Section 17A(b)(3)(I) of Act¹¹ requires that the rules of a clearing agency do not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. NSCC does not believe the proposed rule change would present any burden or have any impact on competition. The proposed rule change is designed to facilitate clearing for the primary market creation and redemption of ETFs with options as underlying components. The proposed rule change would enable NSCC to function as the central hub for creation and redemption order processing for ETFs with option components, alleviating the operational burden currently placed on APs, ETF Agents, and prime brokers, while also enhancing overall efficiency and reducing risk between counterparties and across the industry. The proposed ETF service enhancement would be available to all Members and market participants using NSCC's ETF clearing services and would not advantage or disadvantage any particular participant or user of NSCC's services or unfairly inhibit access to NSCC's services. Therefore, NSCC does not believe that the proposed rule changes would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

¹¹ 15 U.S.C. 78q-1(b)(3)(I).

(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 www.sec.gov/rules-regulations/how-submit-comment. 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 or 202-551-5777.

NSCC reserves the right not to respond to any comments received.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-NSCC-2026-001 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-2026-001. This file number should be included on the subject line if email 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 (<https://www.sec.gov/rules/sro.shtml>). Copies of the filing will be available for inspection and copying at the principal office of NSCC and on DTCC's website (<https://dtcc.com/legal/sec-rule-filings.aspx>). Do not include personal identifiable information in submissions; you should submit only information that you wish to make

available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-NSCC-2026-001 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹²

Sherry R. Haywood,

Assistant Secretary.

¹² 17 CFR 200.30-3(a)(12).