

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-104981; File No. SR-NSCC-2026-001]

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change Concerning the Clearing of Exchange-Traded Funds with Options as Underlying Components

March 12, 2026.

I. INTRODUCTION

On January 16, 2026, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-NSCC-2026-001, pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder.² The proposed rule change would amend 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 by implementing new messaging connectivity between NSCC and The Options Clearing Corporation (“OCC”) and allowing NSCC to submit instructions to OCC on behalf of their participants.³ The proposed rule change was published for comment in the *Federal Register* on January 29, 2026.⁴ The Commission has received one comment on the changes proposed.⁵

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.

⁴ See Securities Exchange Act Release No. 104687 (Jan. 26, 2026), 91 FR 3938 (Jan. 29, 2026) (File No. SR-NSCC-2026-001) (“Notice of Filing”).

⁵ Comment on the proposed rule change is available at <https://www.sec.gov/rules-regulations/public-comments/sr-nsc-2026-001>.

For the reasons discussed below, the Commission is approving the proposed rule change.

II. BACKGROUND

ETFs (referred to as “index receipts” in the NSCC Rules) are marketable securities that track stock indices, commodities, bonds, or baskets of assets. 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 central 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”).⁶ Both the ETF Agents and APs are Members of NSCC.⁷

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.”

⁶ See Notice of Filing, *supra* note 4, at 3938.

⁷ *Id.*

NSCC supports the creation and redemption of ETFs on both a “cash-only” and “in-kind” basis.⁸ In a “cash-only” transaction, ETF shares are exchanged for cash; in an “in-kind” transaction, ETF shares are exchanged for the component securities and other assets in the trading basket.⁹

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”).¹⁰ NSCC states, however, that 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.¹¹ NSCC further states that, 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).¹²

NSCC states that APs and ETF Agents have raised concerns regarding the existing processes for clearing ETFs that have option components in their trading baskets.¹³ NSCC states that 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

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.* OCC is the sole clearing agency for standardized equity options listed on national securities exchanges registered with the Commission.

¹² *Id.*

¹³ *Id.*

option components at OCC.¹⁴ 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 options components are cleared by OCC.¹⁵

NSCC states that, 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.¹⁶ NSCC states that this process, as it stands, is fragmented and heavily dependent on manual intervention, which increases the potential for errors and operational risk, and this lack of integration and automation has been identified as a significant pain point by industry participants.¹⁷ NSCC also states that the processing of these transactions outside of clearing, and without the benefit of NSCC’s CCP guaranty, can introduce counterparty credit risks among participants, and that the bilateral processing of these transactions outside a CCP model may result in additional balance sheet costs to APs.¹⁸

NSCC states that it has closely collaborated with OCC and key industry stakeholders 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,

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.* at 3939.

¹⁸ *Id.*

mitigating the aforementioned current challenges.¹⁹ 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 states that it understands that industry participants would initially use this new functionality primarily for ETF redemption orders, which currently present the largest challenges for industry participants.²⁰ NSCC states that addressing industry concerns and reducing operational burdens associated with the redemption of ETFs with option components may in turn promote and facilitate primary market creation and redemption activity more broadly for such ETFs.²¹

III. DESCRIPTION OF THE PROPOSED RULE CHANGE

The proposed rule change would 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 route instructions to OCC for the processing of any option position transfers or adjustments associated with the creation/redemption order. NSCC states that it 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

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.*

(“ACATS”) in transmitting such instructions to OCC.²² NSCC would guarantee settlement of the ETFs as well as any underlying components eligible for clearance and settlement at NSCC.²³ However, NSCC would not guarantee position transfers, position adjustments or related activity concerning the underlying option components at OCC.

NSCC would 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 rule change 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 derivatives clearing organization (an “Options Clearing Organization,” such as OCC). The proposed rule change 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.²⁴

In addition, the proposed rule change would provide that NSCC would not be responsible

²² *Id.* at 3939

²³ *Id.* 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.

²⁴ *See* Section F.1. of Procedure II (Trade Comparison and Recording Service) of the NSCC Rules, *supra* note 3.

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 rule change 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, NSCC would only guarantee the settlement of ETFs and underlying components that are eligible for clearing at NSCC.²⁵

The proposed rule change would also allow NSCC to automatically process payment orders between APs and ETF Agents to offset CNS²⁶ cash debit amounts associated with the value of the option components that have been instructed for position movement at such Options Clearing Organization. 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.²⁷ In the case of an ETF with

²⁵ See Notice of Filing, *supra* note 4, at 3939.

²⁶ 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. *Id.* at 3939.

²⁷ *Id.*

option components, NSCC states that 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.²⁸ Through industry discussions, NSCC states that 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.²⁹ NSCC states that the proposed rule change would automate the processing of such payment orders.³⁰

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

²⁸ *Id.*

²⁹ *Id.*

³⁰ *Id.*

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.

NSCC states that 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.³¹ NSCC also states that 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.³² Accordingly, NSCC states that 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.³³

IV. DISCUSSION AND COMMISSION FINDINGS

Section 19(b)(2)(C) of the Act³⁴ 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

³¹ *Id.* at 3940.

³² *Id.*

³³ *Id.*

³⁴ 15 U.S.C. 78s(b)(2)(C).

organization. After careful review of the proposed rule change, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC.³⁵ In particular, the Commission finds that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.³⁶

Section 17A(b)(3)(F) of the Act requires that the rules of a clearing agency, such as DTC, be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, and foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions.³⁷ The proposed rule change is consistent with Section 17A(b)(3)(F) of the Act for the reasons stated below.

As described in Sections II and III above, the proposed rule change will expand NSCC's ETF clearing services to facilitate the "in-kind" creation and redemption of ETFs with options as underlying components by establishing new messaging connectivity between NSCC and OCC and allowing NSCC to submit instructions to OCC on behalf of their participants. Market participants primarily manage this process outside of NSCC today (*i.e.*, ex-clearing) through fragmented and manual workflows, and without the benefit of NSCC's CCP guaranty, which introduces operational and counterparty credit risks among market participants and may result in additional balance sheet costs to APs. The proposed rule change should address these challenges

³⁵ The Commission received one comment letter from The Security Traders Association ("STA") recommending that the Commission approve the proposed rule change. *See* Letter from Kevin Skarbek, Chairman of the Board, STA, and James Toes, President & CEO, STA, dated March 4, 2026 ("STA Letter").

³⁶ 15 U.S.C. 78q-1(b)(3)(F).

³⁷ *Id.*

by allowing NSCC to function as the central hub for creation and redemption order processing for ETFs with option components.³⁸ Specifically, the proposed rule change would apply NSCC's CCP guaranty for transactions involving ETFs and eligible underlying components that are currently processed ex-clearing. By guaranteeing settlement of these transactions, the proposed rule change should reduce bilateral counterparty credit risks among participants, which should reduce systemic risks during periods of market stress and thereby promote the safeguarding of securities and funds.³⁹ Further, by automating the routing of instructions for underlying options components to OCC, the proposed rule change should reduce the reliance on manual processes and the potential for settlement failures, errors, and operational disruptions, thereby promoting the prompt and accurate clearance and settlement of securities transactions.⁴⁰ Finally, establishing a standardized messaging interface between NSCC and OCC, which was developed in collaboration with key industry stakeholders, should foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions.⁴¹ For these reasons, the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act.

³⁸ See STA Letter, *supra* note 35, at 4 (stating that automating this process and bringing it into a CCP environment may facilitate “in-kind” transactions in more types of options-based ETFs and reduce operational complexities).

³⁹ *Id.* (“Without CCP involvement in redemptions, participants face direct counterparty exposure, which can amplify systemic risks during periods of market stress. NSCC's role as a CCP would extend its guaranty to the settlement of the ETFs as well as any underlying components eligible for clearance and settlement at NSCC. This is particularly important for ETFs with option components, which may involve volatile assets and require precise position adjustments”).

⁴⁰ *Id.*, at 2 and 4-5 (stating that the proposed rule change would minimize operational risks such as miscommunications or delays that could lead to failed trades by reducing reliance on manual processes, represents a critical step forward in modernizing ETF clearing processes, reduces operational risks and enhances market efficiency, would support competition without unfair discrimination, and enables more APs to participate by reducing operational complexity).

⁴¹ *Id.* at 4-5 (stating that the proposal could promote market growth and innovation).

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 Act⁴² and the rules and regulations promulgated thereunder.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act⁴³ that proposed rule change SR-NSCC-2026-001, be, and hereby is, APPROVED.⁴⁴

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴⁵

Sherry R. Haywood,

Assistant Secretary.

⁴² 15 U.S.C. 78q-1.

⁴³ 15 U.S.C. 78s(b)(2).

⁴⁴ In approving the Proposed Rule Change, the Commission considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁴⁵ 17 CFR 200.30-3(a)(12).