

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-69221; File No. SR-NSCC-2013-01)

March 22, 2013

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Net and Bilaterally Offset Aggregated Receive and Deliver Settlement Obligations for Special Trades, and to Use Current Market Price as the Uniform Settlement Price for Net Balance Orders

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 March 11, 2013, 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 primarily by NSCC. NSCC filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii)<sup>3</sup> of the Act and Rule 19b-4(f)(4)<sup>4</sup> thereunder, so that the proposed rule change was effective upon filing with the Commission. 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 is to modify NSCC’s Rules and Procedures (“Rules”), as described below.

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

---

<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)(iii).

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

In its filing with the Commission, NSCC 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. NSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.<sup>5</sup>

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

*Bilateral Offset and Net of Special Trades*

Pursuant to its Rules, NSCC may determine that some or all transactions in a particular security settle on a trade-for-trade basis between counterparties ("Special Trades").<sup>6</sup> NSCC will issue receive and deliver instructions for Special Trades to the transacting NSCC members ("Members") to settle the transactions directly between themselves. In addition, in accordance with the Rules, Members may designate transactions as Special Trades, and agree to settle the transactions on a trade-for-trade basis.<sup>7</sup> NSCC does not guaranty settlement of Special Trades.

Historically, Members were required to settle each Special Trade individually (i.e., trade-for-trade). In order to simplify this process and mitigate the processing burden on Members, NSCC amended its Rules in 2010<sup>8</sup> in order that it may, at its discretion, aggregate bi-laterally between counterparties the Special Trades that NSCC designates as such, so just one receive order and one deliver order in a given security would need to settle for each party, rather than

---

<sup>5</sup> The Commission has modified the text of the summaries prepared by NSCC.

<sup>6</sup> See Rules, Procedure II, Section F ([http://dtcc.com/legal/rules\\_proc/nscc\\_rules.pdf](http://dtcc.com/legal/rules_proc/nscc_rules.pdf)).

<sup>7</sup> Id.

<sup>8</sup> See Release No. 34-61762 (Mar. 23, 2010); 75 FR 15479 (Mar. 29, 2010).

settling potentially many individual transactions.<sup>9</sup> However, a Special Trade's aggregated buy and sell obligations are not currently netted and offset between the counterparties. For example, if Broker A had 15 buys against Broker B in Security X, these items would be aggregated into one receive obligation for A and one deliver obligation for B for the total amount of shares for the 15 transactions in Security X. Likewise, if Broker A had 20 sells with Broker B on that same day for the same security, those items would also be aggregated into one deliver obligation for A and one receive obligation for B. In this example, A and B would each have two settlement obligations with the other for Security X, rather than the 35 obligations they would each have without aggregation.

In order to further simplify the process described above, NSCC proposes that it may net aggregated positions in transactions designated by it as Special Trades so that any positions (i.e., both receive and deliver obligations) between the transacting Members can be offset against each other, resulting in one bilateral receive obligation or deliver obligation from one party to the other for the given security.<sup>10</sup> In the example above, this would result in each party having one settlement obligation associated with Security X as opposed to two, and realizing a reduced obligation in terms of any associated movement of securities and money settlement.

Under such circumstances, if (1) issuing of a net buy or sell instruction would result in a money settlement that would be directionally opposite to a typical money settlement in relation to its corresponding securities movement (i.e., a Member receives an instruction to receive securities with a corresponding receipt of money settlement payment, or deliver securities with a

---

<sup>9</sup> Special Trades designated as such by the transacting Members, not NSCC, are not aggregated and continue to settle on a trade-for-trade basis.

<sup>10</sup> When Members have an equal number of shares bought and sold between them, NSCC will not issue a receive or deliver obligation, but will record any cash difference in the NSCC money settlement system.

corresponding delivery of a money payment), or (2) the associated money settlement is flat in relation to the securities movement (i.e., a Member receives an instruction to receive or deliver securities without a corresponding money settlement amount), then NSCC may, in lieu of netting and offsetting, separately aggregate the receive and deliver instructions (as it does currently), so that the transacting Members would each have one aggregate buy obligation and one aggregate sell obligation in the given security.

#### *Net Balance Order Pricing*

The uniform settlement price for net Balance Orders is currently established using a rounding methodology.<sup>11</sup> If the current per share price of the Balance Order Security is under \$2.00, the Settlement Price will be established to the nearest cent. If the current per share price of the Balance Order Security is between \$2.00 and \$10.00, the Settlement Price will be rounded to the nearest quarter dollar. If the current per share price of the Balance Order Security is over \$10.00, the Settlement Price will be rounded to the nearest whole dollar. To promote the prompt and accurate settlement of Net Balance Orders, NSCC proposes to eliminate the rounding methodology and, instead, apply the current market price for the Balance Order Security as the uniform settlement price for Net Balance Orders.

#### *Proposed Changes to Rule Text*

NSCC proposes to amend Procedure II of its Rules to provide for the creation of receive and deliver instructions that reflect the net offset of aggregated Special Trade positions, as described above.<sup>12</sup> In addition, regarding Net Balance Orders, NSCC proposes to revise Procedure V of its Rules to delete the rounding methodology and add the current market price

---

<sup>11</sup> See Rules, Procedure V, Section C ([http://dtcc.com/legal/rules\\_proc/nscc\\_rules.pdf](http://dtcc.com/legal/rules_proc/nscc_rules.pdf)).

<sup>12</sup> As with any Special Trade, NSCC will not guaranty settlement of receive and deliver orders of transactions aggregated and/or net pursuant to the proposed Rule change.

methodology, as described above.

Statutory Basis

NSCC believes the proposed rule change, as described above, is consistent with the requirements of the Act, specifically Section 17A(b)(3)(F),<sup>13</sup> and the rules and regulations thereunder applicable to NSCC, because the change provides for operational efficiencies for Members in the settlement of transactions by reducing the number of obligations requiring settlement for Special Trades, and promoting accuracy with respect to the pricing of Net Balance Orders; therefore, facilitating the prompt and accurate clearance and settlement of securities transactions.

(B) Self-Regulatory Organization's Statement on Burden on Competition

NSCC does not believe that the proposed rule change will have any impact, or impose any burden, on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments relating to the proposed rule change have not yet been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

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

The forgoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>14</sup> and Rule 19b-4(f)(4)<sup>15</sup> thereunder. 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

---

<sup>13</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>14</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>15</sup> 17 CFR 240.19b-4(f)(4).

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.

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 No. SR-NSCC-2013-01 on the subject line.

Paper Comments:

- Send in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, D.C., 20549-1090.

All submissions should refer to File Number SR-NSCC-2013-01. 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, D.C. 20549 on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of such filings will also be available for inspection and copying at the principal office of NSCC and on NSCC's website at

[http://dtcc.com/downloads/legal/rule\\_filings/2013/nsc/SR-NSCC-2013-01.pdf](http://dtcc.com/downloads/legal/rule_filings/2013/nsc/SR-NSCC-2013-01.pdf).

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSCC-2013-01 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>16</sup>

Kevin M. O'Neill  
Deputy Secretary

---

<sup>16</sup> 17 CFR 200.30-3(a)(12).