

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70937; File No. SR-NSCC-2013-11)

November 25, 2013

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Add a New Service to the National Securities Clearing Corporation's Obligation Warehouse ("OW") Which Would Pair Off and Close Certain Open Obligations, Reducing the Number of Open Obligations in OW

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 November 14, 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. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

NSCC is proposing to modify its Rules & Procedures ("Rules") to add a new service to NSCC's Obligation Warehouse ("OW") which would pair off and close certain open obligations, reducing the number of open obligations in OW, as more fully described below.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

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

¹ 15 U.S.C. 78s(b)(1). Defined terms that are not defined in this notice are defined in Exhibit 5 of the proposed rule change filing, available at <http://www.sec.gov/rules/sro/nsccl.html> under File No. SR-NSCC-2013-02, Additional Materials.

² 17 CFR 240.19b-4.

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.

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

1. Purpose

The purpose of the proposed rule change is for NSCC to modify its Rules to add a new service to NSCC's Obligation Warehouse ("OW") which would pair off and close certain open obligations, reducing the number of open obligations in OW. NSCC's Obligation Warehouse, or "OW", implemented in 2011, is a non-guaranteed, automated service that tracks, stores, and maintains unsettled ex-clearing and failed obligations, as well as obligations exited from NSCC's Continuous Net Settlement ("CNS") system, non-CNS Automated Customer Account Transfer Service ("ACATS") Receive and Deliver Instructions, Balance Orders, and Special Trades, as defined in NSCC's Rules (collectively "OW Obligations"). The service provides transparency, serves as a central storage of open (i.e. failed or unsettled) broker-to-broker obligations, and allows users to manage and resolve exceptions in an efficient and timely manner.

Simultaneously, OW provides on-going maintenance and servicing of matched obligations that have not been marked by a Member as subject to upcoming delivery, closure, or cancellation. Examples of this on-going maintenance and servicing include adjustments for certain corporate actions, daily review for CNS eligibility, and regular processing of the Reconfirmation and Pricing Service ("RECAPS") in the OW on days announced by Important Notices. During the daily review for CNS eligibility, OW Obligations that are eligible for CNS are exited from the OW and forwarded to CNS. On days when RECAPS is run in the OW, OW

Obligations that are eligible for RECAPS³ are re-netted and, if appropriate, are marked to the current market price,⁴ and are provided with an updated settlement date of the next business day. NSCC is proposing to add a new service to OW, the Pair Off function, which would pair off and close certain open obligations, reducing the number of open obligations in OW. The Pair Off function would run once a day, immediately following the completion of the review for CNS eligibility.⁵

OW stores and maintains OW Obligations until they are settled, closed, or cancelled. Today, in order to reduce the number of obligations that remain on their books and records, Members may take actions away from NSCC to close out these open obligations. Those Members would then close the obligations in OW. The proposed Pair Off function would facilitate the close out of any OW Obligations that Members designate as eligible for the service. By facilitating the close out of these obligations in an automated manner within the OW, the Pair Off function would add transparency to the life cycle of these obligations that may otherwise be closed out away from NSCC. With respect to obligations that are removed from the OW as a result of a pair off, the function would also help Members to remove these obligations from their books and records, and would reduce those Members' administrative costs associated with maintaining these obligations in OW.

³ Obligations that are matched and have a settlement date of at least two days prior to the date on which the RECAPS process commences will be considered for inclusion in the RECAPS process, and therefore, fail items not already in the OW and eligible for RECAPS processing must be submitted by the Member prior to RECAPS processing.

⁴ In the event that the current market price for a security is not available, the obligation's price details will be unchanged from when it was previously matched.

⁵ NSCC will announce by Important Notice days on which Pair Off function will not run, which may include days on which the RECAPS process is run in the OW.

Under the proposed rule change, NSCC Members would have the opportunity to designate certain OW Obligations that are in “Open” status in the OW to which they are a party to be eligible to be paired off with other OW Obligations in the same CUSIP and ultimately closed.⁶ NSCC may, in its discretion, exclude certain obligations from the Pair Off function, and will announce by Important Notice which obligations are excluded. Initially, the following obligations may be excluded: (1) OW Obligations in which the underlying security is a mutual fund, a when-issued security,⁷ or is part of a syndicate; (2) OW Obligations that are identified in OW as an ACATS Receive and Deliver Instruction; (3) obligations that, as of the time the Pair Off function runs, are identified in the OW as being subject to a corporate action; and (4) an obligation that is marked in the OW as being in “Open” status but has already been sent to The Depository Trust Company’s Inventory Management System (IMS) as a pending delivery.

The Pair Off function would use a matching methodology that would pair off eligible OW Obligations based on the quantity of underlying securities, the final money amount, and the settlement dates of the underlying obligations. The Pair Off function would only match OW Obligations that have been designated as eligible for pair off by both Members that are party thereto, and that are in the same CUSIP and have the same counterparties, where the counterparties have offsetting long and short obligations. The methodology would pair off eligible OW Obligations in order by first pairing off those obligations that have the most criteria

⁶ Members may either participate in the Pair Off function on an account level, designating all OW Obligations in an “Open” status in the OW to which they are a party as eligible for the Pair Off function, and then opt out of the function with respect to certain OW Obligations; or they may designate only certain OW Obligations as eligible for pair off.

⁷ A transaction in a “when issued” security is made conditionally because the underlying security has been authorized but not yet issued, and will only settle after the security has been issued.

in common. For example, the methodology would first pair off eligible OW Obligations where the quantity of underlying securities, the settlement dates of the obligations, and the final money amounts are identical. The methodology would continue to review eligible OW Obligations subject to certain rules, beginning with eligible OW Obligations with the oldest settlement date, and eligible OW Obligations with the smallest number of underlying securities.

Under the proposal, eligible OW Obligations would be paired off where the quantity of underlying securities, the final money amount, or the settlement dates of the underlying obligations may not be identical, and, in certain cases, one OW Obligation would be paired off against multiple OW Obligations. However, a pair off would never occur if it would result in (1) a negative quantity of underlying securities in either of the original obligations, (2) it [*sic*] a negative final money amount, or (3) at least one of the obligations subject to the pair off to remain open, with a reduced quantity of underlying securities and have a final money amount of zero or less than zero. Additionally, OW Obligations in municipal bonds would only be eligible for pair off where the quantity of the underlying securities in the obligations subject to the pair off is identical and no underlying securities remain.

Where the pair off criteria are met, the OW Obligations would either be closed or, where the quantities of underlying securities are not exactly matched between obligations being paired off, the pair off would result in one or more of the obligations being reduced by the quantity of securities that were paired off. Those obligations would remain in “Open” status in OW and would be adjusted to reflect the reduced number of underlying securities. Where the underlying final money amounts are not exactly matched between obligations being paired off, the pair off would result in a cash adjustment, which would be reflected in the Members’ money settlement with NSCC on the following business day.

Implementation Timeframe

Subject to approval of this filing, NSCC proposes to implement the Pair Off function during the first quarter of 2014. Pending Commission approval, Members will be advised of the implementation date through issuance of an NSCC Important Notice.

Proposed Rule Changes

NSCC is proposing to amend Rule 51 (Obligation Warehouse) and add a new Section E to the existing Procedure IIA (Obligation Warehouse) describing the Pair Off function.

2. Statutory Basis

NSCC believes the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC, in particular Section 17A(b)(3)(F) of the Act,⁸ which requires that NSCC's Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions. By providing for greater efficiency and transparency with respect to obligations processed through the OW, the proposed rule change promotes 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.

⁸ 15 U.S.C. 78q-1(b)(3)(F).

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 a 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 (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-NSCC-2013-11 on the subject line.

Paper Comments:

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

All submissions should refer to File No. SR-NSCC-2013-11. 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 such filings also will 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-2013-02.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 No. SR-NSCC-2013-11 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.⁹

Kevin M. O'Neill
Deputy Secretary

⁹ 17 CFR 200.30-3(a)(12).