

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-79356; File No. SR-NSCC-2016-007)

November 18, 2016

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Accommodate Shorter Standard Settlement Cycle and Make Other Changes

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 November 7, 2016, 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 NSCC’s Rules & Procedures (“Rules”)<sup>3</sup> in order to ensure that the Rules are consistent with the anticipated industry-wide move to a shorter standard settlement cycle for certain securities<sup>4</sup> from the

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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 [http://dtcc.com/~media/Files/Downloads/legal/rules/nscc\\_rules.pdf](http://dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf).

<sup>4</sup> The financial services industry, in coordination with its regulators, is planning to shorten the standard settlement cycle for equities, corporate and municipal bonds, unit investment trusts and financial instruments comprised of the foregoing products traded on the secondary market from T+3 to T+2 (the “Shortened Settlement Cycle”). See Securities Exchange Act Release No. 78962 (September 28, 2016), 81 FR 69240 (October 5, 2016) (S7-22-16) (Amendment to Securities Transaction Settlement Cycle).

third business day after the trade date (“T+3”) to the second business day after the trade date (“T+2”), as described below. The proposed rule change would not become effective until NSCC has submitted a subsequent proposed rule change under Rule 19b-4.<sup>5</sup> Therefore, NSCC would not implement this version of the Rules until an effective date is established by the subsequent proposed rule change.<sup>6</sup>

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

(i) Background

The standard settlement cycle has not changed since 1993, when the Commission adopted the current version of Rule 15c6-1(a) under the Securities Exchange Act of 1934, as amended ( the “Act”), which (subject to certain exceptions) prohibits any broker-

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<sup>5</sup> 17 CFR 240.19b-4.

<sup>6</sup> NSCC will post a version of the relevant sections of the Rules reflecting the changes as they would appear upon the effectiveness of the subsequent proposed rule change mentioned above and will include a note on the cover page of the Rules to advise Members of these changes.

dealer from entering into a contract for the purchase or sale of a security that provides for payment and delivery later than three business days after the trade date, unless otherwise expressly agreed to by the parties at the time of the transaction.<sup>7</sup>

In an effort to reduce counterparty risk, decrease clearing capital requirements, reduce liquidity demands and harmonize the settlement cycle globally, the financial services industry has been working on shortening the standard settlement cycle from T+3 to T+2. In connection therewith, the Commission has proposed a rule change to shorten the standard settlement cycle from T+3 to T+2.<sup>8</sup>

A number of provisions in the Rules currently define “regular way” settlement as occurring on T+3 and, as such, would need to be amended in connection with shortening the standard settlement cycle to T+2. Further, certain timeframes or cutoff times in the Rules key off the current settlement date of T+3, either expressly or indirectly. In such cases, these timeframes and cutoff times would also need to be amended in connection with the Shortened Settlement Cycle. Therefore, to facilitate the anticipated industry-wide move to the Shortened Settlement Cycle, NSCC proposes to make certain amendments to the Rules.

(ii) *Proposed Changes to the Rules*

The primary purpose of the proposed rule change is to modify the Rules to accommodate the anticipated industry-wide move to a two-day settlement cycle.<sup>9</sup> While the core functions of NSCC will continue to operate in the same way in the Shortened

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<sup>7</sup> 17 CFR 240.15c6-1.

<sup>8</sup> Supra note 4.

<sup>9</sup> Id.

Settlement Cycle, NSCC has determined that the move to T+2 would necessitate certain amendments to the Rules because currently the Rules are designed to accommodate a T+3 settlement cycle. In particular, NSCC has identified and is proposing to change (i) rules that have timeframes and/or cutoff times that are tied to the standard settlement cycle and (ii) rules affected by process changes relating to the Shortened Settlement Cycle. In addition, NSCC is proposing to make a number of technical changes and corrections to the Rules.

*A. Rules Tied to the Standard Settlement Cycle*

Certain provisions in the Rules are tied to the standard settlement cycle because they reference timeframes and/or cutoff times that are based on the timing of settlement. These are provisions that (i) directly track the timeframe and/or Settlement Date of the standard settlement cycle, (ii) address non-standard settlement cycles or (iii) provide for timeframes and/or cutoff times that are connected to or are affected by the timing of the standard settlement cycle, and they would need to be changed in order to accommodate the Shortened Settlement Cycle. As an example, the Rules contain a number of provisions that refer to “three days” or “T+3” as the timeframe and Settlement Date of the standard settlement cycle. These provisions would need to be updated to reflect “two days” or “T+2” to be in conformance with the Shortened Settlement Cycle. Similarly, a number of provisions in the Rules refer to timeframes and Settlement Dates that are intended to be shorter or earlier, as applicable, than the timeframe and/or Settlement Date of the standard settlement cycle. These provisions would also need to be changed in order to accommodate the Shortened Settlement Cycle. Likewise, the length and timing of certain cutoff times are based on either a standard settlement cycle or a non-standard

settlement cycle. Therefore, when the timeframe and Settlement Date of the standard settlement cycle and non-standard settlement cycle are changed, these cutoff times would also need to be revised accordingly.

NSCC is proposing changes to the following Rules because they contain provisions that are tied to the standard settlement cycle and would need to be changed to facilitate the move to Shortened Settlement Cycle:

1. Rule 4A (Supplemental Liquidity Deposits)

In Section 2, delete references to the “third Settlement Day” and replace them with references to the “second Settlement Day” in the definition of “Options Expiration Activity Period.”

2. Procedure II (Trade Comparison and Recording Service)

In Section C.1.(p), with regards to trade input and comparison of debt securities transactions submitted for non-standard settlement, delete the reference to “T+2 and T+1 settlement” and replace it with “T+1 settlement.”

In Section D.2.(A)(1)(b), with regards to municipal and corporate debt securities, delete the reference to “two days” and replace it with “one day.”

In Section F.2, with regards to the Settlement Date for the Index Receipts, delete the reference to “T+1, T+2 or T+3” and replace it with “T+1 or T+2.”

In Section G, with regards to the eligibility of trades to be settled in the normal settlement cycle and the cutoff time for updating the totals reported for such trades, delete references to “T+3” and replace them with “T+2.”

3. Procedure III (Trade Recording Service (Interface with Qualified Clearing Agencies))

In Section B, with regards to the Settlement Date for the exercise or assignment of options at OCC, delete the reference to “three days” and replace it with “two days.”

4. Procedure V (Balance Order Accounting Operation)

In Section C, (i) with regards to the timing for the netting of trades in Balance Order Securities, delete references to “T and T+1” and replace them with “T” and (ii) with regards to the listing of the Clearance Cash Adjustment amount for all Balance Orders on the Consolidated Trade Summary, delete the reference to the Consolidated Trade Summary being available on T+2.

5. Procedure VII (CNS Accounting Operation)

In Section B, (i) with regards to the timing of the comparison or recording of trades in CNS Securities for inclusion on the Consolidated Trade Summary, delete the words “T+1 up to” and (ii) with regards to the timing of as-of trades in CNS Securities that are reported on the Consolidated Trade Summary, delete references to “T+2” and “T+3” and replace them with “T+1” and “T+2,” respectively.

In Section G.3, with regards to the time period for determining the rate of the split for adjustments to Current Market Price in the case of stock splits, delete the reference to “last two days” and replace it with “one day.”

In Section H.4(b), (i) with regards to timing related to securities subject to voluntary reorganizations, delete references to protect periods of “two days”, “three days” and “greater than three days” and replace them with “one day”, “two days” and “greater than two days”, respectively and delete references to “E+2”, “E+3” and “E+4” and replace them with “E+1”, “E+2” and “E+3,” respectively, (ii) in the table listing the

time frames for the processing of securities subject to voluntary reorganizations with a protect period, delete the reference to “two days or less” and replace it with “one day or less” as well as delete the entries for the 2 day protect period and (iii) with regards to the timing for the recording of ID Net Service eligible transactions on the Miscellaneous Activity Report, delete the words “on the night of T+2.”

In Section K, with regards to the timing for advising a Member about its potential liability with respect to a short position or a short Settling Trade position in a security to which an exercise privilege attaches, delete the reference to “T+2” and replace it with “T+1.”

6. Procedure XIII (Definitions)

In the definition for “T,” delete the reference to “T+3” and replace it with “T+2.”

7. Procedure XVI (ID Net Service)

In Procedure XVI, with regards to the timing for processing by NSCC of ID Net Service transactions, delete references to “the evening of T+2” and “the night of T+2” and replace them with “the evening prior to Settlement Date” and “the night prior to Settlement Date,” respectively.

8. Addendum A (Fee Structure)

In Section E.1, with regards to the fee for Index Creation and Redemption instructions submitted for regular way settlement, delete the explanatory parenthetical “(T+3)” and replace it with “(T+2).”

9. Addendum K (Interpretation of the Board of Directors Application of Clearing Fund)

In Section I.2, with regards to the endpoint of NSCC’s guaranty for balance order transactions, delete the reference to “T+3” and replace it with “T+2.”

*B. Rules Covering Processes Affected by a Shortened Settlement Cycle*

NSCC conducted an in-depth review of its internal operational processes to identify those processes that would require changes in order to accommodate the Shortened Settlement Cycle. In connection with that review, NSCC has identified the following provisions in the Rules that would need to be updated in connection with such process changes:

1. Procedure V (Balance Order Accounting Operation)

In Section B, with regards to trades that are to be processed on a trade-for-trade basis, clarify that such processing occurs for trades that are compared or otherwise entered into the Balance Order Accounting Operation on SD-1, “after the cutoff time established by the Corporation.” This is because under the Shortened Settlement Cycle, trades that are compared or otherwise entered into the Balance Order Accounting Operation on SD-1 would be processed as multilaterally netted balance orders when reported on the Consolidated Trade Summary issued at approximately 12:00 p.m. ET on SD-1. Trades compared and reported thereafter would continue to be processed on a trade-for-trade basis.

Similarly, in Section B, with regards to trades that are to be processed on a trade-for-trade basis, clarify that such process occurs for securities that are subject to a voluntary corporate reorganization which have a trade date on or before the expiration of the voluntary corporate reorganization and which are compared or received “on SD-1, after the cutoff time established by the Corporation” and not “after SD-1.” This shift in cutoff time is because “as of” regular way trades compared and received prior to 11:30 a.m. on SD-1 would be processed as multilaterally netted balance orders when reported



on the Consolidated Trade Summary issued at approximately 12:00 p.m. ET on SD-1. “As of” regular way trades compared and reported thereafter would continue to be processed on a trade-for-trade basis.

2. Procedure VII (CNS Accounting Operation)

In Section D.1, with regards to the timing of the distribution of Projection Reports, delete the reference to “[e]ach morning” and replace it with “[t]wice a day” because currently NSCC distributes the Projection Report only once a day; however, after the implementation of the Shortened Settlement Cycle, NSCC would be distributing the Projection Reports twice a day to enable Members to view their updated positions on a more timely basis.

*C. Other Technical Changes and Corrections*

During its review of the Rules in connection with the Shortened Settlement Cycle, NSCC has identified the following technical changes and/or corrections that it proposes to make to the Rules in order to ensure that the Rules remain consistent and accurate.

1. In Rule 3, Section 1(c), add a footnote that identifies the term “CUSIP” as a registered trademark of the American Bankers Association.
2. In Procedure II, Section G, correct a grammatical error.
3. In Procedure VII, Sections B and D, correct grammatical errors.
4. In Procedure X, Section B, delete the reference to the timeframe for the delivery of Liability Notices to the contra party by Members holding the receive balance orders for warrants, rights, convertible securities or certain other securities so the Members would remain solely subject to the schedules of the relevant exchanges.

5. In Procedure XIII, delete the incorrect reference to “Settlement Day” and replace it with “Settlement Date” in the definition for “T” to clarify that T+2 would normally be the Settlement Date after the implementation of the Shortened Settlement Cycle.

6. In Procedure XVI, correct a grammatical error.

#### Implementation Timeframe

The proposed rule change would not become effective until NSCC has submitted a subsequent proposed rule change under Rule 19b-4.<sup>10</sup> Therefore, NSCC would not implement this version of the Rules until an effective date is established by the subsequent proposed rule change. NSCC anticipates that the implementation date would correspond with the industry’s transition to a T+2 settlement cycle, which is currently anticipated to be in September 2017.

#### 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.

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<sup>10</sup> 17 CFR 240.19b-4.

In particular, Section 17A(b)(3)(F) of the Act requires, in part, that NSCC's Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and to protect investors and the public interest.<sup>11</sup> NSCC believes that the proposed changes are consistent with the requirements of Section 17A(b)(3)(F) because by changing the timeframes and/or cutoff times that are based on timing of settlement to accommodate the Shortened Settlement Cycle, the proposal would ensure that securities transactions would be promptly and accurately cleared and settled within the industry standard settlement cycle. Similarly, the related process changes proposed are designed to update NSCC's operations in order to facilitate the move to the Shortened Settlement Cycle and, by extension, facilitate the prompt and accurate clearance and settlement of securities transactions submitted to NSCC for clearing and settlement. Therefore, NSCC believes the proposed rule change promotes the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.<sup>12</sup>

In addition, the proposed changes to (i) update the Rules to remove references to the settlement timeframes or Settlement Dates that would be rendered incorrect by the Shortened Settlement Cycle and (ii) make other technical changes and corrections as described in detail above would provide additional clarity to Members of their rights and obligations under the Rules and ensure technical accuracy of the Rules. Therefore, NSCC believes these proposed changes would protect investors and the public interest, consistent with the requirements of Section 17A(b)(3)(F) of the Act.<sup>13</sup>

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<sup>11</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>12</sup> Id.

<sup>13</sup> Id.

For the reasons noted above, NSCC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC.

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

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.<sup>14</sup> While the anticipated industry-wide move to the Shortened Settlement Cycle would likely have an impact on competition because the cost of required system changes for individual firms to shift from a T+3 to T+2 settlement may have a disproportionate impact on those firms with relatively smaller revenue bases, NSCC does not believe that the proposed rule changes themselves would have a significant impact on competition because they are operational in nature and consist of changes to processing timeframes and cutoff times for NSCC's services. Moreover, NSCC believes that the proposed rule changes are necessary because they are required to facilitate and accommodate the anticipated move to the Shortened Settlement Cycle and are appropriate in that they have been specifically tailored to be in conformance with the requirements of the Shortened Settlement Cycle. 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.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

NSCC has not received any written comments relating to this proposal. NSCC

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<sup>14</sup> 15 U.S.C. 78q-1(b)(3)(I).

will notify the Commission of any written 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 (<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 Number SR-NSCC-2016-007 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-2016-007. 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 the filing also will be available for inspection and copying at the principal office of NSCC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). 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-2016-007 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>15</sup>

Brent J. Fields  
Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).