

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79655; File No. SR- NSCC-2016-008)

December 22, 2016

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Reflect Updates to the Consolidated Trade Summary, Eliminate Re-Pricing in the Foreign Security Accounting Operation and Make Other Changes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, as amended (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 15, 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”)³ in order to (i) reflect updates that NSCC would make to the Consolidated Trade Summary (referred to herein as the “CTS” and as the “CTSs” for more than one CTS), which is provided to Members and contains summarized trade obligation information, and (ii) eliminate the practice of re-pricing in the Foreign Security Accounting Operation. The proposed rule change would amend the following

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Capitalized terms not defined herein are defined in the Rules, available at http://dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf.

Rules: (i) Procedure II, Section H (Consolidated Trade Summaries), (ii) Procedure V, Section C (Net Balance Orders) and Section E (Consolidated Trade Summaries), (iii) Procedure VI, Section A (Introduction), Section B (Trade-for-Trade Foreign Security Receive and Deliver Instructions), and Section C (Netted Member-to-Member Receive and Deliver Instructions) and (iv) Procedure VII, Section B (Consolidated Trade Summary), as described in more detail below. In addition, the proposed rule change would make technical changes to clarify and correct certain provisions of the foregoing Rules, as described in greater detail below.

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 current CTS⁴ output consists of a main file and two supplemental files as well as an additional file that reflects transactions in Foreign Securities.⁵ The CTS is issued to

⁴ The CTS is described in Procedure II (Trade Comparison and Recording Service), Procedure V (Balance Order Accounting Operation) and Procedure VII (CNS Accounting Operation).

Members as an iterative report three times a day: beginning with the main CTS, which is issued at approximately 21:00 ET, then the first Supplemental CTS, which is issued at approximately 24:00 ET, and finally, the second Supplemental CTS, which is issued the following business day at approximately 12:00 ET. Each iteration of the CTS contains the same type of summarized trade obligation information, however, depending on the time of day the iteration of the CTS is issued, it may be referred to as the “Consolidated Trade Summary” (or “CTS”) or a “Supplemental Consolidated Trade Summary.” Furthermore, any information contained in a prior CTS does not appear again in any successive CTS, including any later Supplemental CTS.⁶

NSCC held numerous industry meetings in order to give Members an open forum to express their ideas about changes that are needed to the CTS. In order to address the Member feedback it received, NSCC would, with this proposed rule change:

(1) consolidate the file layouts into one common file layout, (2) provide more details in the revised CTSs, (3) discontinue a current output format (print image) and introduce a more user-friendly format (referred to as comma separated value or “CSV”) and an online query tool, (4) simplify the terminology in the Rules by referring to each iteration of the CTS as the “Consolidated Trade Summary” (instead of the way in which the Rules

⁵ The Foreign Securities file is a transaction file reporting Foreign Securities trades as received. The transactions are netted in the foreign netting process to become balance orders, which are reported on the CTS. The current CTS reports the netted summary records and balance orders on T+1. The revised CTS would report Foreign Securities trades on trade date. The revised CTS will report both foreign and domestic netted transactions and the associated balance orders. By consolidating the Foreign Securities file and CTS files, Members would have only one file to support.

⁶ The trade obligation information in the CTS is Member-specific; it is not anonymized.

are currently drafted to refer to a “Consolidated Trade Summary” and a “Supplemental Consolidated Trade Summary”), and (5) discontinue the Foreign Securities transaction file because information contained in that additional file would be reflected in the revised CTSs, each of which is described below.

(i) *Changes to the CTS and Technical Changes to the CTS-related Rules*

First, the proposed rule change would consolidate the file layouts of the current CTSs into one common file layout that would be used for each of the three CTSs that are issued each day. Currently, each of the main CTS file, the supplemental CTS file, and the Foreign Securities file has its own individual file layout. NSCC would consolidate these multiple file layouts into one common file layout in the revised CTS file. Having one common layout in the revised CTS would eliminate the need for Members to maintain coding for multiple file layouts.

Second, the proposal would update the CTS output file layout to provide Members with additional transparency and clarity regarding their trade summary, balance orders and receive and deliver instructions, which would help with reconciliation. For example, the current CTS output file layout specifies if a security is a CNS security or a non-CNS security but does not further clarify the non-CNS obligations as guaranteed or not guaranteed. Under the proposal, the CTS output file layout would be expanded to include a field for the guarantee/not guarantee designation to clearly indicate to users whether a trade obligation is guaranteed or not guaranteed. Other examples of new fields that would be added include: (1) netting type to describe whether netted (e.g., multilaterally netted or bilaterally netted) or trade-for-trade instructions resulted, and (2) a net reason code to add clarity as to the netting type.

Third, Members have also expressed interest in having NSCC change the current file format of the CTSs, which are currently available in print image format and machine-readable (“MRO”) format. As a result, NSCC would discontinue the current print image format while maintaining the current MRO format and would also introduce an online query tool. The print image format would be replaced by CSV which can be downloaded into spreadsheet programs. In addition to the three iterations of the CTS that would continue to be distributed to Members, Members would also be able to use a new online query tool to search information and create their own custom data view and custom reports. The new online query tool would enable users to research information that has been previously distributed in a CTS. Members have expressed interest in this change in file formats and the online query tool which allows results to be downloaded to spreadsheet programs.

Fourth, from a Rules perspective, the terminology in Procedure II, Section H, Procedure V, Section E and Procedure VII, Section B would be revised, so that each CTS would be referred to as the “Consolidated Trade Summary” and more than one CTS would be referred to as the “Consolidated Trade Summaries.” The proposed rule change would eliminate references to alternate terminology such as “Supplemental Consolidated Trade Summary,” “Supplemental Consolidated Trade Summaries,” and “CTS.” In addition, conforming changes would be made to Procedure V, Section C and Procedure VII, Section B to add phrases and terms such as “next available,” “applicable” and “prior” before references to “Consolidated Trade Summary.” Additional technical changes would be made to clarify that the CTS would continue to be issued to Members three times a day and would continue to be non-cumulative; these changes would apply to

Procedure II, Section H, Procedure V, Section E and Procedure VII, Section B.

Procedure VII, Section B would also be amended to reflect the change in output format of the Consolidated Trade Summaries (specifically, because the print image format is being discontinued and the CSV format is being introduced, the Rules and terminology must be changed to use terminology consistent with the different format).

Fifth, the Foreign Securities transaction file would be discontinued. Information that is currently in this additional file would be reflected in the revised CTSs.

NSCC would continue to issue the CTSs to Members three times a day, at approximately the same intervals as it does today.⁷ The revised CTSs would continue to be iterative (i.e., any information that appeared on prior CTSs would not appear again on any successive CTSs), and also continue to be available in MRO format.

(ii) *Discontinuation of the Re-pricing of Foreign Securities and Technical Clarifications/Corrections to Procedure VI (Foreign Security Accounting Operation)*

Based on Member feedback, NSCC is also proposing to update the code associated with NSCC's Foreign Security Accounting Operation, which receives and processes Foreign Securities traded over-the-counter and settled in U.S. Dollars.⁸ The current foreign netting process aggregates Foreign Securities obligations, bilaterally nets these obligations and then re-prices these obligations using a uniform Settlement Price.

⁷ The header of the CTS output file would indicate whether the CTS is for Cycle 1 (i.e., the one issued at approximately 21:00 ET), Cycle 2 (i.e., the one issued at approximately 24:00 ET) or Cycle 3 (i.e., the one issued at approximately 12:00 ET on the next business day).

⁸ See Procedure VI (Foreign Security Accounting Operation).

As further explained below, NSCC is proposing to no longer re-price these Foreign Securities obligations.

By way of background, Members often settle their Foreign Securities trades bilaterally in the local market prior to receiving the main CTS (which contains netted obligations marked to market using the uniform Settlement Prices of such Foreign Securities). There is, therefore, a timing mismatch between the Members' settlement of Foreign Securities trades that are executed in U.S. Dollars and the distribution of the CTS to Members by NSCC. Currently, NSCC re-prices these Foreign Securities at the uniform Settlement Prices, creating potential cash adjustments that are not guaranteed by NSCC. For example, assume there are 10 trades of a Foreign Security which have been executed at different contract prices between Member A and Member B. First, these 10 trades are aggregated by NSCC so that there is a net buy obligation and a net sell obligation between Member A and Member B. The Foreign Securities trades may have been executed at different contract prices, so, today, NSCC applies the uniform Settlement Price to the netted buy obligation and the netted sell obligation. Re-pricing can create a cash adjustment for Members; this cash adjustment is not guaranteed by NSCC and is a concern for Members. For example, if a Member's respective counterparty in a trade becomes insolvent, then the solvent Member is liable for the cash adjustment because it is not guaranteed by NSCC. With this proposed rule change, the cash adjustment and the associated risk due to re-pricing would be eliminated, as requested by Members.⁹

⁹ A cash adjustment due to netting, however, is still possible, and would continue to be not guaranteed; this cash adjustment occurs because of the cash differences due to the netting process. A cash adjustment due to netting would arise, if, for

Foreign Securities would continue to be bilaterally netted, but would no longer be re-priced at uniform Settlement Prices. Instead, they would be bilaterally netted at their contract prices to eliminate the risk of a cash adjustment (which is not guaranteed by NSCC) due to re-pricing.

To effectuate this proposed change, NSCC proposes to remove language in Procedure VI, Section C that permits NSCC to establish a uniform Settlement Price and calculate any related Foreign Security Clearance Cash Adjustment associated with the re-pricing. Unlike the underlying Foreign Securities transactions (which are settled in the local markets and not at NSCC), the payments of any Foreign Security Clearance Cash Adjustment (whether due to netting or re-pricing) related to those underlying Foreign Securities transactions are made through NSCC today and under the proposed rule change, this would continue to be the case with respect to Foreign Security Clearance Cash Adjustments that arise due to netting. The proposed rule change would revise the language in Procedure VI to clearly state that the failure of a Member to make payment of the Foreign Security Clearance Cash Adjustment with NSCC will cause NSCC to reverse all such cash adjustment debits and credits (rather than generally stating this would be caused by the failure to “make settlement with the Corporation”). The proposed rule change would further clarify that neither the settlement of the underlying

example, Member A sold 5 shares of Security X for \$20 and Member B bought 5 shares of Security X for \$10. In this case, the shares would net out to zero, but there would be a cash adjustment of \$10.

transaction nor the payment of the related Foreign Security Clearance Cash Adjustment would be guaranteed by NSCC (which is also the case today).¹⁰

Additional clarifying changes to Procedure VI include revising the reference from “T+2” in Section B to “SD-1” because Foreign Securities transactions are not always settled on T+3 (according to local market practices) and thus, are not always compared on T+2, as Section B of Procedure VI states. Therefore, using Settlement Date (i.e., “SD”) as the reference point is more appropriate. Furthermore, Foreign Securities transactions are reported on the CTSs, which are Settlement Date-based. In addition, in Section C, “produced” would be revised to “reported,” because “reported” more accurately describes what occurs today – that is, NSCC reports the netted Member-to-Member receive and deliver instructions. In addition, the proposed rule change would make the following corrections: (i) the reference in Section C to “Foreign Security Clearing Cash Adjustment” would be revised to the correct term, “Foreign Security Clearance Cash Adjustment” and (ii) the cross-references to “Section II” and “Section IV” in Section A would be replaced with references to “Procedure II” and “Procedure IV,” respectively.

Implementation Timeframe

The proposed rule changes would become effective by July 14, 2017. After Commission approval of the proposed rule changes, a legend would be added to each of Procedures II, V, VI and VII stating that there are approved but not yet operative changes

¹⁰ Under the proposed rule change, only a Foreign Security Clearance Cash Adjustment due to re-pricing would be eliminated. A Foreign Security Clearance Cash Adjustment due to netting is still possible, so this Procedure is still applicable to such Foreign Security Clearance Cash Adjustments.

to the respective Procedure and specifying the applicable section or sections that would be amended by the proposed rule change. The legend would state that such changes would be operative by July 14, 2017, but if such changes become operative before July 14, 2017, NSCC would notify Members by Important Notice 30 days before the actual implementation date. The legend would also state that underlined and boldface text indicates new text and strikethrough and boldface text indicates deleted text.

Additionally, the legend would include a reference to the file number of the proposed rule change and would state that once operative, the legend would automatically be removed from the Rules, and the formatting of the text of the changes in the applicable section or sections would automatically be revised to reflect that these changes have become operative.

2. Statutory Basis

Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended (“Act”) requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and to protect investors and the public interest.¹¹

NSCC believes that the proposed rule changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC, in particular Section 17(A)(b)(3)(F), because NSCC believes that the proposed rule changes would promote the prompt and accurate clearance and settlement of securities transactions in furtherance of the Act.¹² Specifically, by updating the CTS to provide more details and information in one common file layout, the proposal would provide

¹¹ 15 U.S.C. 78q-1(b)(3)(F).

¹² Id.

Members with more transparency and clarity regarding their trade obligations, which would help with reconciliation (including, for example, reconciliation of trades for settlement). Furthermore, Members would continue to receive the CTS three times a day, but would receive the CTS in a more user-friendly format (i.e., CSV) in addition to the current MRO format. With the new online query tool, Members would also be able to access trade obligation information that has been distributed in prior CTSs and customize searches of trade obligation information according to their needs. Therefore, NSCC believes that these changes to the CTS would make it a more effective tool for Members to manage their trade obligations and any associated risks, facilitating the protection of investors and the public interest from such risks and also promoting the prompt and accurate clearance of securities transactions.

NSCC believes that the proposed rule changes associated with the Foreign Security Accounting Operation also would promote the prompt and accurate clearance and settlement of securities transactions in furtherance of the Act.¹³ Specifically, the proposed rule change would address the timing mismatch between the receipt of the CTS by Members and the settlement of Foreign Securities trades in the local markets by Members by discontinuing the practice of re-pricing Foreign Securities at the uniform Settlement Prices. This change also would eliminate the possibility of a cash adjustment due to re-pricing and the associated risk that a solvent Member could be liable for the cash adjustment if its counterparty defaults because the cash adjustment is not guaranteed by NSCC. Therefore, NSCC believes that the proposed rule change would promote the

¹³ Id.

prompt and accurate clearance and settlement of securities transactions in furtherance of the Act.¹⁴

Additionally, the proposed rule changes to (i) revise the CTS-related terminology and to make the conforming language changes to the affected provisions in the Rules associated with the CTS and (ii) correct certain Rules, which have been described in detail above, would provide technical accuracy and additional clarity to Members, thereby also promoting the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.¹⁵

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

NSCC does not believe that the proposed rule changes associated with the CTS would impose any burden on competition that is not necessary or appropriate in furtherance of the Act, as described above.¹⁶ While the proposed rule changes relating to the CTS would require Members to make technological changes and thereby incur costs in doing so that may burden the Member competitively, the proposed rule changes have been structured to better meet the needs of Members. Specifically, the proposed rule changes associated with the CTS would meet Members' needs by revising the terminology in the Rules to be simpler, modifying the layout of the CTS to be clearer, and providing users with more information and transparency. In addition to continuing to receive the CTSs three times a day, Members would be able to access CTS information by using the online query tool. Moreover, the proposed rule changes associated with the

¹⁴ Id.

¹⁵ Id.

¹⁶ 15 U.S.C. 78q-1(b)(3)(I).

CTS are appropriate in that such changes reflect Members' feedback. Consequently, NSCC believes that any burden on competition derived from the proposed rule changes would be necessary and appropriate in support of the beneficial objectives of the improvements in the CTS, which would be made in furtherance of the Act, as described above. Moreover, NSCC believes any such burden on competition derived from the proposed rule changes would not be significant because Members have requested these changes and were involved in developing the business requirements.

NSCC does not believe that the proposed changes associated with the Foreign Security Accounting Operation would have any impact on competition. These changes do not require Members to make any coding changes or incur costs. Members would continue to accept output from NSCC associated with their activity in the Foreign Security Accounting Operation as they do today with the difference being that this output would no longer reflect the re-pricing discussed in detail above.

(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. NSCC will notify the Commission of any written comments it receives.

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. Please include File Number SR-NSCC-2016-008 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-2016-008. 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-2016-008 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.¹⁷

Eduardo A. Aleman
Assistant Secretary

¹⁷ 17 CFR 200.30-3(a)(12).