SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–76458; File No. SR–NSCC–2015–005]

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change To Permit Trades in Eligible Fixed Income Securities Scheduled To Settle on Day After Trade Date To Be Processed for Settlement at National Securities Clearing Corporation

November 17, 2015.

On October 7, 2015, National Securities Clearing Corporation (''NSCC'') filed with the Securities and Exchange Commission (''Commission'') proposed rule change SR–NSCC–2015–005 pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] to allow certain fixed-income securities trades that that are scheduled to settle on the day after trade date (''T+1'') to settle either through NSCC's Continuous Net Settlement (''CNS'') system, or through its Balance Order Accounting Operation on a trade-for-trade basis. The proposed rule change was published for comment in the **Federal Register** on October 15, 2015.[3] The Commission did not receive any comment letters on the proposed rule change. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

I. Description of the Proposed Rule Change

The following is a description of the proposed rule change, as provided by NSCC:

The proposed rule change consists of amendments to NSCC's Rules & Procedures (''Rules'') in order to permit trades in fixed income securities (corporate and municipal bonds, and unit investment trusts, collectively ''CMU'') that are T+1 to settle either through its CNS system, as described below, or through its Balance Order Accounting Operation on a trade-for-trade basis, as described below, when eligible for settlement through these services.[4]

Background

CMU transactions that are effected in the over-the-counter markets and submitted to NSCC directly by Members on a bilateral basis are processed through NSCC's Real Time Trade Matching (''RTTM'') platform. Within RTTM, the buy and sell sides of a transaction are validated and matched, resulting in a compared trade that is reported to Members. This process is called ''trade comparison.''

Today, with the exception of CMU trades that are submitted to NSCC to settle on a timeframe that is shorter than T+2,[5] CMU trades submitted to NSCC through RTTM are first compared within RTTM, and then are processed into NSCC's Universal Trade Capture (''UTC'') system, where they are checked for eligibility for settlement either through NSCC's CNS system[6] or through its Balance Order Accounting Operation on a trade-for-trade basis.[7] These CMU trades, those that are scheduled to settle on a T+2 or longer timeframe, are then processed for settlement through the settlement service for which they are eligible, *i.e.* either the CNS system or the Balance Order Accounting Operation on a trade-for-trade basis. If a CMU trade is not eligible for settlement through either CNS or the Balance Order Accounting Operation, or if it is marked as ''comparison-only'' when it is submitted to NSCC, it is only processed for trade comparison through RTTM and then it must settle away from NSCC.

Today, all CMU trades submitted to NSCC through RTTM that are scheduled to settle on T+1 are automatically processed as comparison-only in RTTM, and must settle away from NSCC. T+1 CMU trades are processed this way because, historically, NSCC's systems were not able to adequately risk manage CMU trades that settled on this shortened timeframe. NSCC has proposed to amend its Rules so that, following trade comparison through RTTM, T+1 CMU trades will be processed into UTC, where they will be checked for eligibility to settle through either CNS or the Balance Order Accounting Operation on a trade-for-trade basis. If eligible, these CMU trades will settle through the settlement service for which they are eligible, *i.e.* either the CNS system or the Balance Order Accounting Operation on a trade-for-trade basis.

Pursuant to Addendum K of the Rules, NSCC guarantees the completion of CNS settling trades that have reached the later of midnight of T+1 or midnight of the day they are reported to Members, and guarantees the completion of shortened process trades, such as same-day and next-day settling trades, upon comparison or trade recording processing.[8] Therefore, for those T+1 CMU trades that are eligible for settlement through CNS, NSCC will guarantee the completion of these trades upon comparison or trade recording processing. T+1 CMU trades that settle through CNS will be subject to all appropriate risk management measures and margining, pursuant to the existing risk management methodology and policies and procedures, including the Specified Activity charge component of its Clearing Fund charges, which applies to trades settling at NSCC on a shortened processing cycle.[9] NSCC estimates that CMU trades that are designated to settle on T+1 and will be eligible to settle through CNS represent less than half of a percent of all CMU trades processed at NSCC, and less than 2% of the total value of all CMU trades processed at NSCC.[10] In order to

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 76112 (October 8, 2015), 80 FR 62121 (October 15, 2015) (SR–NSCC–2015–005).

[4] Terms not defined herein are defined in the Rules, *available at http://dtcc.com/~/media/Files/Downloads/legal/rules/nscc_rules.pdf.*

[5] The settlement timeframe of a trade, *i.e.* when the trade will settle relative to the trade date, is determined by the counterparties to that trade, and is indicated on the trade record when the trade is submitted to NSCC.

[6] CNS and its operation are described in Rule 11 and Procedure VII. Rules, *supra* note 4. To be eligible for CNS settlement, a transaction must be in a security that is eligible for book-entry transfer on the books of The Depository Trust Company, and must be capable of being processed in the CNS system; for example, securities may be ineligible for CNS processing due to certain transfer restrictions (*e.g.,* 144A securities) or due to the pendency of certain corporate actions.

[7] The Balance Order Accounting Operation is described in Procedure V. Rules, *supra* note 4. CMU trades that are processed through the Balance Order Accounting Operation are processed on a trade-for-trade basis, as described in Section B of Procedure V, such that Receive and Deliver Orders, as defined in the Rules, are created instructing the counterparties to the transaction to deliver or receive a quantity of securities to or from their counterparty to that transaction. These transactions are not netted and are not subject to NSCC's risk management measures, as NSCC's central counterparty guarantee does not attach to these trades.

[8] NSCC guarantees the completion of trades that settle through CNS pursuant to Addendum K of the Rules. Rules, *supra* note 4.

[9] The components of NSCC's Clearing Fund are described in Procedure XV, and the Specified Activity charge is described in Section I(A)(1)(g) for trades settling through CNS. Rules, *supra* note 4.

[10] Based on data from the first quarter of 2015, an approximate daily average of 45,000 CMU trades are processed at NSCC, with an approximate total daily value of an average of $8.3 billion. Of the approximate daily average of 45,000 CMU trades processed at NSCC, an approximate daily average of 200 CMU trades are designated to settle on T+1 and are in securities that are eligible for settlement in CNS. Of the approximate daily value of an average of $8.3 billion in CMU trades processed at NSCC, CMU trades that are designated to settle on T+1 and are in securities that are eligible for settlement in CNS have an approximate total daily value of an average of $145 million. The average daily CMU transaction volume is less than 1% of NSCC's overall daily volume.

implement this proposed rule change, NSCC will amend Procedure II (Trade Comparison and Recording Service). In particular, these amendments will provide that CMU T+1 transactions will be handled in the same manner as CMU T+2 trades and trades submitted for regular way (or T+3) settlement. Procedure II will also be amended to remove reference to CMU T+1 transactions from the section that identifies those trades that are accepted by NSCC for comparison-only processing.

Implementation

The effective date of the proposed rule change will be announced via an NSCC Important Notice.

II. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act [11] 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 organization. The Commission believes the proposal is consistent with section 17A(b)(3)(F) of the Act.[12]

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, as well as, in general, protect investors and the public interest.[13] By permitting T+1 CMU transactions to settle through CNS or the Balance Order Accounting Operation, the transactions will receive the benefit of NSCC's settlement services, including, in the case of CNS, a trade guarantee. Thus, the proposal will protect investors and the public interest by mitigating NSCC Members' settlement risk and counterparty risk. As such, the Commission believes that the proposal is consistent with section 17A(b)(3)(F) of the Act.[14]

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of section 17A of the Act [15] and the rules and regulations thereunder.

It is therefore ordered, pursuant to section 19(b)(2) of the Act, that proposed rule change SR–NSCC–2015–005 be, and hereby is, *approved.*[16]

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[17]

Robert W. Errett,

Deputy Secretary.

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[11] 15 U.S.C. 78s(b)(2)(C).

[12] 15 U.S.C. 78q–1(b)(3)(F).

[13] *Id.*

[14] *Id.*

[15] 15 U.S.C. 78q–1.

[16] In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

[17] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–76462; File No. SR–NSCC–2015–004]

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change To Require Real-Time Trade Submission and To Prohibit Pre-Netting Practices Through NSCC's Correspondent Clearing Service

November 17, 2015.

On September 30, 2015, National Securities Clearing Corporation (''NSCC'') filed with the Securities and Exchange Commission (''Commission'') proposed rule change SR–NSCC–2015–004 pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] to require correspondent clearing trades to be submitted in real-time. The proposed rule change was published for comment in the **Federal Register** on October 14, 2015.[3] The Commission did not receive comment letters regarding the proposed change. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

I. Description of the Proposed Rule Change

The following is a description of the proposed rule change, as provided by NSCC:

The proposed rule change consists of amendments to NSCC's Rules & Procedures (''Rules'') in order to require that trade data submitted to NSCC through its Correspondent Clearing service, other than position movements between NSCC Members that are Affiliates and Client Custody Movements, as described further below, be submitted in real-time, and to prohibit pre-netting and other practices that prevent real-time trade submission.[4]

Background

Requiring trades to be submitted in real-time facilitates efficient risk management for both NSCC and its Members, enables same-day bookkeeping and reconciliation, and, therefore, significantly reduces risk to the industry. Receipt of trade data on a real-time basis permits NSCC's risk management processes to monitor trades closer to trade execution on an intra-day basis, and to identify and risk manage any issues relating to exposures earlier in the day. Contract information is currently reported out to submitting firms by NSCC's Universal Trade Capture (''UTC'') system upon trade comparison and validation, and receipt of trade data in real-time enables NSCC to report to Members trade data as it is received, thereby promoting intra-day reconciliation of transactions at the Member level. The majority of trades submitted to NSCC for clearing are currently being submitted in real-time on a trade-by-trade basis, and NSCC is operationally capable of managing trade volumes that are multiple times larger than the historical peak volumes.

NSCC will require that trade data submitted through its Correspondent Clearing service, as described below, be submitted in real-time and to prohibit pre-netting and other practices that prevent real-time trade submission (''pre-netting practices''). NSCC will exclude from this requirement position movements between NSCC Members that are Affiliates and Client Custody Movements, as described below. The term ''real-time,'' when used with respect to trade submission, is defined in Procedure XIII (Definitions) of the Rules as the submission of trade data on a trade-by-trade basis promptly after trade execution, in any format and by any communication method acceptable to NSCC.

NSCC's UTC system receives and validates transactions that are submitted to it, reports trade details back out to the submitting firm, and prepares those transactions for netting and settlement by routing transactions to netting and settlement systems, such as Continuous Net Settlement Accounting Operation, the Balance Order Accounting Operation, or the Foreign Security Accounting Operation, as applicable. Transactions are submitted to UTC

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 76099 (October 7, 2015), 80 FR 61860 (October 14, 2015) (SR–NSCC–2015–004).

[4] Terms not defined herein are defined in the Rules, *available at http://dtcc.com/~/media/Files/Downloads/legal/rules/nscc_rules.pdf.*