

3. Shares will be purchased and redeemed in Creation Units and generally on an in-kind basis. Except where the purchase or redemption will include cash under the limited circumstances specified in the application, purchasers will be required to purchase Creation Units by depositing specified instruments ("Deposit Instruments"), and shareholders redeeming their shares will receive specified instruments ("Redemption Instruments"). The Deposit Instruments and the Redemption Instruments will each correspond pro rata to the positions in the Fund's portfolio (including cash positions) except as specified in the application.

4. Because shares will not be individually redeemable, applicants request an exemption from section 5(a)(1) and section 2(a)(32) of the Act that would permit the Funds to register as open-end management investment companies and issue shares that are redeemable in Creation Units only.

5. Applicants also request an exemption from section 22(d) of the Act and rule 22c-1 under the Act as secondary market trading in shares will take place at negotiated prices, not at a current offering price described in a Fund's prospectus, and not at a price based on NAV. Applicants state that (a) secondary market trading in shares does not involve a Fund as a party and will not result in dilution of an investment in shares, and (b) to the extent different prices exist during a given trading day, or from day to day, such variances occur as a result of third-party market forces, such as supply and demand. Therefore, applicants assert that secondary market transactions in shares will not lead to discrimination or preferential treatment among purchasers. Finally, applicants represent that share market prices will be disciplined by arbitrage opportunities, which should prevent shares from trading at a material discount or premium from NAV.

6. With respect to Funds that effect creations and redemptions of Creation Units in kind and that are based on certain Underlying Indexes that include foreign securities, applicants request relief from the requirement imposed by section 22(e) in order to allow such Funds to pay redemption proceeds within fifteen calendar days following the tender of Creation Units for redemption. Applicants assert that the

positions that will form the basis for the Fund's calculation of its NAV at the end of the day. Applicants believe that requiring Self-Indexing Funds to maintain full portfolio transparency will help address, together with other protections, conflicts of interest with respect to such Funds.

requested relief would not be inconsistent with the spirit and intent of section 22(e) to prevent unreasonable, undisclosed or unforeseen delays in the actual payment of redemption proceeds.

7. Applicants request an exemption to permit Funds of Funds to acquire Fund shares beyond the limits of section 12(d)(1)(A) of the Act; and the Funds, and any principal underwriter for the Funds, and/or any broker or dealer registered under the Exchange Act, to sell shares to Funds of Funds beyond the limits of section 12(d)(1)(B) of the Act. The application's terms and conditions are designed to, among other things, help prevent any potential (i) undue influence over a Fund through control or voting power, or in connection with certain services, transactions, and underwritings, (ii) excessive layering of fees, and (iii) overly complex fund structures, which are the concerns underlying the limits in sections 12(d)(1)(A) and (B) of the Act.

8. Applicants request an exemption from sections 17(a)(1) and 17(a)(2) of the Act to permit persons that are Affiliated Persons, or Second-Tier Affiliates, of the Funds, solely by virtue of certain ownership interests, to effectuate purchases and redemptions in-kind. The deposit procedures for in-kind purchases of Creation Units and the redemption procedures for in-kind redemptions of Creation Units will be the same for all purchases and redemptions, and Deposit Instruments and Redemption Instruments will be valued in the same manner as those investment positions currently held by the Funds. Applicants also seek relief from the prohibitions on affiliated transactions in section 17(a) to permit a Fund to sell its shares to and redeem its shares from a Fund of Funds, and to engage in the accompanying in-kind transactions with the Fund of Funds.<sup>3</sup> The purchase of Creation Units by a Fund of Funds directly from a Fund will be accomplished in accordance with the policies of the Fund of Funds and will be based on the NAVs of the Funds.

9. Section 6(c) of the Act permits the Commission to exempt any persons or transactions from any provision of the Act if such exemption is necessary or appropriate in the public interest and

<sup>3</sup> The requested relief would apply to direct sales of shares in Creation Units by a Fund to a Fund of Funds and redemptions of those shares. Applicants are not seeking relief from section 17(a) for, and the requested relief will not apply to, transactions where a Fund could be deemed an Affiliated Person, or a Second-Tier Affiliate, of a Fund of Funds because an Adviser or an entity controlling, controlled by or under common control with an Adviser provides investment advisory services to that Fund of Funds.

consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. Section 12(d)(1)(J) of the Act provides that the Commission may exempt any person, security, or transaction, or any class or classes of persons, securities, or transactions, from any provision of section 12(d)(1) if the exemption is consistent with the public interest and the protection of investors. Section 17(b) of the Act authorizes the Commission to grant an order permitting a transaction otherwise prohibited by section 17(a) if it finds that (a) the terms of the proposed transaction are fair and reasonable and do not involve overreaching on the part of any person concerned; (b) the proposed transaction is consistent with the policies of each registered investment company involved; and (c) the proposed transaction is consistent with the general purposes of the Act.

For the Commission, by the Division of Investment Management, under delegated authority.

**Eduardo A. Aleman,**  
*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-84256; File No. SR-NSCC-2018-006]

### Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Clarify and Update Certain Sections of the Rules

September 21, 2018.

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 September 19, 2018, 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. NSCC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(4) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit

<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).

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

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 modifications to the Rules and Procedures of NSCC ("Rules")<sup>5</sup> in order to clarify and update certain sections of the Rules, and to improve the transparency of those Rules and Members' understanding of NSCC's services, as described 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**

NSCC is proposing to make revisions to certain Rules in order to clarify and update those Rules. The Rules that NSCC is proposing to revise generally relate to the processing of NSCC's Continuous Net Settlement ("CNS") system (described below), and include Rule 3 (Lists to Be Maintained), Rule 11 (CNS System), Procedure II (Trade Comparison and Recording Service) and Procedure VII (CNS Accounting Operation).

First, the proposed changes are designed to enhance the transparency of these Rules by adding information. Second, the proposed changes are designed to simplify these Rules by removing information that either (a) describes internal processing and does not provide Members with important information regarding the applicable service, or (b) no longer describes the current processing operation. Finally, the proposed changes would revise statements to more clearly disclose to Members the operation of the applicable service and, thereby, provide Members with a better understanding of their rights and obligations, and NSCC's

rights and obligations, in connection with the use of those services.

NSCC is also proposing to make certain technical changes to correct typographical errors, revise the wording of statements to improve their clarity and update the use of defined terms. Such changes would be made in the Rules cited above, as well as Rule 9 (Envelope Settlement Service).

Each of these proposed changes is described below.

##### **(i) Overview of the CNS System**

NSCC's core services are trade capture through its Universal Trade Capture ("UTC") system, and clearance and settlement through its CNS System. Trade capture, the first step in the clearance and settlement process, involves the daily receipt of trade data from over trading venues, including U.S. securities exchanges and automated trading facilities, and from Members submitting transaction data directly. That data is then compared or recorded.<sup>6</sup> Trade comparison consists of validating and matching the buy and sell sides of a securities transaction, and results in a compared trade that is reported to Members.

Compared and recorded transactions in CNS Securities are processed in the CNS System.<sup>7</sup> Under the CNS System, all eligible compared and recorded transactions for a particular settlement date are netted by issue into one net long (buy), net short (sell) or flat position per Member.<sup>8</sup> As a continuous net system, those positions are further netted with positions of the same issue that remain open after their originally scheduled settlement date (usually two days after trade date), so that trades scheduled to settle on any day are netted with fail positions to result in a single deliver or receive obligation for each Member for each issue in which it has activity. NSCC becomes the counterparty for settlement purposes, assuming the obligation of its Members that are

<sup>6</sup> NSCC's trade comparison and recording services are described in Rule 7 and Procedure II of the Rules. *Supra* note 5. Over 99% of all trade data is submitted to NSCC on a "locked-in" basis, meaning that it is already compared by the marketplace of execution. When submitted, locked-in trades are validated and recorded, via NSCC's UTC system, and reported to Members.

<sup>7</sup> "CNS Security" is further defined in Rule 1 of the Rules, and the list of eligible CNS Securities is described in Rule 3 of the Rules. *Supra* note 5. Pursuant to the Rules, a CNS Security must be eligible for book-entry transfer on the books of DTC, 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.

<sup>8</sup> The CNS System and the CNS Accounting Operation is described in Rule 11 and Procedure VII of the Rules. *Supra* note 5.

receiving securities to receive and pay for those securities, and the obligation of Members that are delivering securities to make the delivery.

CNS relies on an interface with NSCC's affiliate, The Depository Trust Company ("DTC"), for the book-entry movement of securities to settle transactions. CNS short positions are compared against Members' DTC accounts to determine availability of securities for delivery. If securities are available, they are transferred from the Member's account at DTC to NSCC's account at DTC to cover the Member's short obligations to CNS. To control the automatic delivery of securities from their DTC accounts (for example, to prevent the automatic delivery of customer fully-paid securities), Members can use CNS exemption procedures, as described in Section D of Procedure VII of the Rules.

The allocation of CNS long positions to receiving Members is processed in an order determined by an algorithm built into the system. Securities are automatically allocated to Members' long positions as the securities are received by NSCC. Members can request that they receive priority for some or all issues on a standing or override basis, as described in Section D of Procedure VII of the Rules. Submission of buy-in notices (described in Section J of Procedure VII of the Rules) and other specified activity will also affect the priority of a Member's long position.

Daily money settlement for CNS activity is based on the value of all settled positions plus or minus mark-to-market amounts for all open CNS positions, and occurs through NSCC. Such settlement amounts may include, for example, adjustments for applicable interest or dividend payments on a Member's positions in a CNS Security. The CNS deliveries made through DTC are made free of payment.

##### **(ii) Proposed Changes To Enhance Transparency of the Rules**

NSCC is proposing changes that would add more information to the Rules in order to enhance the transparency of those Rules.

##### **a. Improve Disclosures Regarding Cleared Securities List**

Rule 3 of the Rules describes the lists maintained by NSCC that include, for example, securities that are eligible to be cleared through its facilities (defined in the Rules as "Cleared Securities").<sup>9</sup> This Rule also describes the bases for removing a security from these lists. Currently, Section 1(a) of Rule 3 of the

<sup>9</sup> *Supra* note 5.

<sup>5</sup> Available at <http://www.dtcc.com/legal/rules-and-procedures>. Capitalized terms used herein and not otherwise defined shall have the meaning assigned to such terms in the Rules.

Rules states that a security may be removed from the list of Cleared Securities if, for example, it has been suspended from trading pursuant to Section 12(k) of the Act.<sup>10</sup> NSCC is proposing to update this sentence to also provide that a security may be removed from the list of Cleared Securities if it has been suspended from trading pursuant to Section 12(j) of the Act.<sup>11</sup> Both Sections 12(k) and (j) of the Act could cause the suspension of trading a security, which would cause such security to be removed from the list of Cleared Securities. Therefore, NSCC believes that the proposed change would provide Members with improved transparency regarding the possible circumstances under which a security may no longer be eligible to be processed by NSCC.

**b. Relocate Sentence Regarding CNS Security Eligibility**

NSCC is proposing to move a statement regarding the circumstances in which a Cleared Security may be removed from the list of CNS Securities from Section 10 of Rule 11 of the Rules to Section 1(b) of Rule 3 of the Rules. Currently, Section 1(b) of Rule 3 of the Rules states generally that NSCC may, from time to time, add Cleared Securities to, or remove Cleared Securities from, this list of CNS Securities. The sentence in Section 10 of Rule 11 of the Rules identifies some of the circumstances when NSCC may determine to remove a Cleared Security from this list. NSCC believes the proposed change to move this statement to Rule 3 of the Rules would improve the transparency of the Rules. In connection with this change, and to further enhance the transparency of the Rules, NSCC is also proposing to add to this statement that a Cleared Security may be removed from the list of CNS Securities if NSCC determines that maintaining such security on the list of CNS Securities may pose additional risk to NSCC or its Members. NSCC believes that this proposed change would be consistent with NSCC's general discretion to remove Cleared Securities from the list of CNS Securities, and would provide Members with additional transparency regarding the circumstance when this may occur.

<sup>10</sup> See 15 U.S.C. 78l(k). Section 12(k) of the Act authorizes the Commission to summarily suspend trading in a security if, in the Commission's opinion, the public interest and the protection of investors so require.

<sup>11</sup> See 15 U.S.C. 78l(j). Section 12(j) of the Act authorizes the Commission to revoke the registration of a security if the issuer fails to comply with the federal securities laws.

**c. Improve Disclosures Regarding Information That May be Required by Envelope Settlement Service**

NSCC provides its Members with a service through which it may accept physical envelopes in connection with delivery and receipts of securities, money settlements, or claims for dividends and interest, as described in Rule 9 of the Rules. Currently, Section 1.3 of Rule 9 states that all envelopes delivered through this service must be accompanied by any information NSCC may require from time to time. NSCC is proposing to update this sentence to state that such information may include, when applicable, information regarding certifications from the Office of Foreign Assets Control ("OFAC"). In 2007, NSCC provided its Members with notice that it would require Members to identify any applicable OFAC certifications within envelopes delivered through this service.<sup>12</sup> The proposed change would improve the transparency of the Rules by including this requirement as an example of the type of information NSCC may require under Rule 9 of the Rules.

**d. Improve Disclosures Regarding Dividend and Distribution Payments and Debits on CNS Securities**

Currently, Section 8(a) of Rule 11 of the Rules describes how NSCC reports to Members that it has received notice from an issuer that a stock or cash dividend has been declared on a CNS Security in which such Members have either long or short positions. Section 8(a) of Rule 11 and Section G of Procedure VII of the Rules both further describe how such Members are either debited or credited the appropriate amounts on the payable date of an applicable dividend or other distribution. NSCC is proposing to update the Rules to clarify that, when a dividend or distribution is subject to non-U.S. withholding taxes, the amount debited or credited, as appropriate, may be adjusted to reflect applicable taxes at a rate determined by NSCC in its sole discretion.<sup>13</sup> While Section G of Procedure VII of the Rules currently discloses that NSCC would apply the appropriate credit or debit on the payable date, the proposed changes would further disclose this adjustment that may be made to that credit or debit when applicable. NSCC believes that the

<sup>12</sup> See Important Notice A#6384, P&S#5954, dated January 23, 2007, available at <http://www.dtcc.com/~media/Files/pdf/2007/1/23/A6384.pdf>.

<sup>13</sup> In practice, NSCC would generally apply the tax treaty rate that is also applied by DTC.

proposed rule change would improve the transparency of the Rules.

**(iii) Proposed Changes To Update and Simplify the Rules**

NSCC is proposing to simplify the Rules by, for example, removing descriptions of internal processing that, NSCC believes, do not provide Members with important information regarding the use of NSCC's services, and by updating descriptions to reflect existing processes. These proposed changes would make the Rules clearer and more easily understood by Members.

**a. Remove Description of Requirement That Envelopes Include Duplicate Credit Lists**

Currently, Section 1.3 of Rule 9 of the Rules, which describes the Envelope Settlement Service, states that Members must include in envelopes duplicate credit lists. This service is now automated and, in practice, NSCC would generate a copy of a credit list if one is not provided. Therefore, NSCC is proposing to remove the reference to the duplicate credit list in order to remove the requirement that a duplicate credit list be provided and to update the Rules to reflect current practice.

**b. Remove Descriptions of Processing of Securities With Exercise Privileges**

NSCC is proposing to remove Section 11 of Rule 11 and Section K of Procedure VII of the Rules, which describe the process by which a Member may submit to NSCC a notice regarding an exercise privilege, and how that notice would subsequently be processed by NSCC. For at least the past 10 years, NSCC has not received any Notices of Intention to Exercise with respect to the exercise of a conversion, warrant or right attached to a security. Additionally, NSCC has generally exercised the discretion provided under Section H of Procedure VII and declined to process conversion events through the CNS Reorganization Processing System.<sup>14</sup> In practice, NSCC does not process the exercise of a conversion, warrant or right and it exits securities from the CNS System if these applicable

<sup>14</sup> See Securities Exchange Act Release No. 83654 (July 17, 2018), 83 FR 34901 (July 23, 2018) (SR-NSCC-2018-003), which approved NSCC's proposal to enhance the Rules related to the CNS Reorganization Processing System, including by removing Section H, 5 of Procedure VII of the Rules, which described the special processing rules that applied to a conversion event for convertible securities.

privileges are exercised during the settlement cycle.<sup>15</sup>

While this proposed change would revise the Rules as written, the change would not result in any change to current practice. Rather, the proposed change would reflect NSCC's longstanding practice to remove these securities from the CNS System. As such, NSCC does not believe this change would alter the respective rights or obligations of NSCC or Members using this service. NSCC believes this proposed change would mitigate any confusion by Members regarding the availability of this service.

#### c. Remove Descriptions of Internal Processing in the CNS System

Currently, Section C.1 of Procedure VII of the Rules describes how NSCC's records are updated internally each day to reflect the results of netting through the CNS System. The end of this section includes two sentences regarding indicators that are applied by the CNS System reflecting where positions are subject to exemptions from delivery, requests for priority allocation, or buy-ins.<sup>16</sup> These indicators are applied within the CNS System to facilitate the settlement process. NSCC is proposing to remove these sentences from this Section because it does not believe they provide Members with important information regarding their rights and obligations, or NSCC's rights and obligations, in connection with this service. NSCC believes that the proposed change would simplify the Rules, making them clearer to Members.

#### (iv) Proposed Changes To Update and Revise the Rules

NSCC is proposing to update and revise certain statements in the Rules in order to make them clearer and more transparent and, thereby, provide Members with a better understanding of their rights and obligations, and NSCC's rights and obligations, in connection with the use of NSCC's services.

<sup>15</sup> After these securities are exited from CNS, the exercise of a conversion, warrant or right occurs bilaterally, away from NSCC.

<sup>16</sup> Members can submit instructions to influence the priority of certain positions in the CNS allocation process, and can also submit instructions to exempt certain positions from delivery in CNS, as described in Sections D and E of Procedure VII. *Supra* note 5. Additionally, Members with long positions that have failed may notify NSCC of their intent to purchase or "buy-in" those securities, which causes those positions to have high priority in CNS allocations, as described in Section J of Procedure VII. *Id.*

#### a. Revise Statements Regarding Members' Priority Requests for Receipt of Securities

As provided for in Section E of Procedure VII of the Rules, Members may submit to NSCC requests regarding the priority of CNS allocation for their positions. Currently, a statement in Section A of Procedure VII and the title of Section E of Procedure VII of the Rules state that such requests would "control" the priority of positions in this allocation process. NSCC is proposing to revise this statement and the title to Section E of Procedure VII of the Rules to make clear that priority requests from Members would *influence*, but may not control, the priority of positions in the CNS allocation process. For example, a priority request may not control the receipt of positions in the CNS allocation process when a Member submits a request for a low priority, but has the only long position in that security on that settlement date. In this example, the Member would be allocated that security as the highest (and only) priority in the allocation process. Therefore, NSCC believes that the proposed change would revise the Rules to more clearly describe the effect of these priority requests.

#### b. Revise Statement Regarding Credit/Debit of Dividends, Interest and Stock Splits

Currently, Section A of Procedure VII of the Rules states that dividends and interest on Members' positions in CNS Securities are credited or debited to Members' accounts according to the security positions that exist on record date. NSCC is proposing to revise this statement to remove reference to payments or debits of interest, and to add a new, parallel sentence to Section A of Procedure VII of the Rules that states interest is credited or debited to the Members' accounts according to the security positions that exist on the day prior to the payable date, and that stock splits are credited or debited to the Members' accounts according to the security positions that exist on due bill redemption date. In connection with this change, NSCC is proposing to add a cross reference to Section G of Procedure VII of the Rules, where these credits and debits are more fully described. NSCC believes that this proposed change would more clearly describe the security position on which NSCC would apply an applicable debit or credit and, thereby, would improve the clarity and transparency of the Rules.

#### c. Revise Rules Regarding Exemption Instructions in Delivery of CNS Securities

Currently, Section D of Procedure VII of the Rules describes the process by which Members may submit instructions to NSCC to indicate which short positions they do not wish to settle and should be exempt from delivery. NSCC is proposing revisions to certain statements within this section to more clearly describe Members' rights and obligations with respect to this service.

First, NSCC is proposing to revise statements in this section to make clear that Members are required to submit instructions for any delivery exemptions to be applied. The proposed changes would clarify this rule by revising a statement regarding the application of the One Day Settling Exemption in the introduction paragraph of Section D of Procedure VII of the Rules. The One Day Settling Exemption is applicable to transactions that are compared or received by NSCC on the day prior to settlement day or thereafter. Currently, the Rules state that this delivery exemption is applied automatically. While NSCC works with all new Members in setting delivery exemptions during onboarding, and instructs new Members to set the One Day Settling Exemption, as required by the Rules, all delivery exemption instructions must be applied through the affirmative action of Members and none are applied automatically.

Second, NSCC is proposing to remove an incorrect statement from Section D.2(c) of Procedure VII of the Rules that NSCC assigns a delivery exemption if no standing or specific exemption instructions are present. Members are required to submit exemptions for each of their respective CNS sub-accounts, as currently stated in the Rules and as described above. Further, setting these delivery exemptions is a part of the NSCC onboarding process for all new Members. Therefore, it is unlikely that no standing or specific delivery exemptions would be present. If, however, no delivery exemption is present for some reason, then none would be applied. Therefore, the proposed change would revise the Rules to remove this statement, which does not describe current processing.

Finally, NSCC is proposing to remove a statement from Section D.2(b)(iv) of Procedure VII of the Rules that states if a Member is allocated securities from one CNS account, those securities override a delivery exemption placed on the short position in its other CNS account. NSCC has confirmed that the

allocation of securities from a CNS account of a Member would not override any delivery exemptions in its other CNS account. Therefore, this sentence does not accurately describe the current processing. The proposed change would remove this sentence from the Rules.

d. Revise Statements Regarding Members' Use of the Accounting Summary and Cash Reconciliation Statement Reports

Section F of Procedure VII of the Rules describes two reports that NSCC provides to its Members regarding their CNS activity—the Accounting Summary and the Cash Reconciliation Statement Report. Currently, Section F.2 of Procedure VII of the Rules states that, while the Accounting Summary report constitutes the official record of that Members' CNS activity, because this report is produced later in the day, Members may utilize the Cash Reconciliation Statement Reports to determine their money settlement obligations. Today, in addition to continued delivery of such reports directly to Members, the information provided on the Cash Reconciliation Statement Reports, as well as other information regarding their CNS activity and settlements, is also available to Members through the CNS Dashboard on the DTCC web portal throughout the day.<sup>17</sup> Therefore, NSCC is updating its Rules to revise this statement, because, due to the additional availability of this information online, it is not necessary to recommend to Members that they may use the Cash Reconciliation Statement Reports to determine their money settlement obligations.

In connection with this change, NSCC would move a statement that the Accounting Summary report constitutes the official record of that Member's CNS activity to the beginning of Section F.2 of Procedure VII of the Rules. By moving this statement to the section that describes the Accounting Summary, NSCC believes that the proposed change would make the Rules clearer to Members.

Finally, NSCC would revise Section F.1 of Procedure VII of the Rules to remove reference to Clearing Fund information in the description of the type of information that may be available on the Accounting Summary. Clearing Fund information is not included in the Accounting Summary report. Therefore, this proposed change

would update the Rules to correct this statement and clarify the information that is available on this report. NSCC believes that the proposed change would improve Members' understanding of the availability of information related to their CNS activity.

(v) Proposed Technical Changes and Corrections to the Rules

NSCC is proposing to make certain technical revisions and corrections to the Rules that would, for example, correct typographical errors, update terms to more clearly describe a current process, and revise the use of defined terms.

First, NSCC is proposing to remove a typographical error from Section 1.2 of Rule 9 of the Rules, where an incomplete sentence was inadvertently added to the Rules.

Second, NSCC is proposing to revise Section 9 of Rule 11 of the Rules to replace references to DTC, with the defined term, "Qualified Securities Depository." Although DTC does meet the definition of a Qualified Securities Depository, NSCC believes this proposed change would improve the clarity to use the applicable defined term. In a related change, NSCC is also proposing to update a sentence that uses the term "Designated Depository" in Section A of Procedure VII of the Rules to include an internal cross-reference to the definition of this term later in that Procedure.

Third, NSCC is proposing to revise a statement in Section C.4 of Procedure VII regarding the frequency of the recycle function of the CNS daytime allocation processing. Currently the statement accurately provides that the process is continual, but includes a phrase that states entries are effected every few minutes. Securities entries are effected at DTC on a continuous basis, which is more frequent than every few minutes. Therefore, NSCC is proposing to update this statement by removing the additional phrase.

Fourth, NSCC is proposing to revise a statement in Section B(ii) of Procedure II of the Rules that describes the types of trades that may be processed on a trade-for-trade basis.<sup>18</sup> Section B(ii) of Procedure II of the Rules describes the processing of cash transactions, next day transactions (*i.e.*, transactions settling the day after execution), and seller's option transactions (*i.e.*, transactions that settle on the date

determined by the seller). This section currently identifies the types of trades that may be processed on a trade-for-trade basis. The third and fourth types of trades in this list—trades in a security undergoing a corporate action and trades scheduled to settle between a dividend ex-date and record date—are applicable only to trades in CNS Securities. NSCC is proposing to revise this sentence to make this clarification.

Finally, NSCC is proposing to revise a statement in Section C.4 of Procedure VII that Members are notified of settlement activity through issued tickets. While the description of the notification to Members is still accurate, the terminology referring to tickets is outdated. Therefore, NSCC is proposing to update these statements to refer more generally to output, which would more accurately describe the reports and other online notifications NSCC provides to its Members regarding settlement activity.

## 2. Statutory Basis

NSCC believes that the proposed changes are consistent with Section 17A(b)(3)(F) of the Act, which requires, in part, that the rules of a registered clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions, for the reasons described below.<sup>19</sup> The CNS System is NSCC's core service for the clearance and settlement of eligible securities transactions. As described above, the proposed rule changes would allow Members to more readily understand their rights and obligations in connection with the use of NSCC's services by (1) enhancing the transparency of the Rules by adding more information, (2) simplifying the Rules by removing information that either does not provide Members with important information regarding their rights or obligations or that no longer describe current processing, and (3) revising statements to more clearly disclose to Members the operation of the applicable services. By improving the Rules in these ways, and allowing Members to more readily understand their rights and obligations in connection with the use of the CNS System, NSCC believes that the proposed changes would facilitate the functioning of the CNS System and NSCC's related services. As such, NSCC believes the proposed changes would promote the prompt and accurate clearance and settlement of securities

<sup>17</sup> See Important Notice A#8357, P&S# 7932, dated March 23, 2017, announcing the Clearing Dashboard and CNS web screens within the DTCC web portal, available at <http://www.dtcc.com/-/media/Files/pdf/2017/3/23/a8357.pdf>.

<sup>18</sup> Certain trades submitted to NSCC for clearance and settlement are not eligible for processing through the CNS System and are processed on a trade-for-trade basis. Such trades settle outside of NSCC's facilities.

<sup>19</sup> 15 U.S.C. 78q-1(b)(3)(F).

transactions, consistent with Section 17A(b)(3)(F) of the Act.<sup>20</sup>

Rule 17Ad-22(e)(23)(i) under the Act requires, in part, that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for publicly disclosing all relevant rules and material procedures.<sup>21</sup> As described above, the proposed rule change would improve the Rules by (1) enhancing the transparency of the Rules by adding more information, (2) simplifying the Rules by removing information that either does not provide Members with important information regarding their rights or obligations or that no longer describe current processing, and (3) revising statements to more clearly disclose to Members the operation of the applicable services. By doing so, the proposed changes would allow the Rules to better disclose all relevant and material aspects of the CNS System and the other services described therein. Therefore, NSCC believes the proposed rule changes are consistent with Rule 17Ad-22(e)(23)(i).<sup>22</sup>

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

NSCC does not believe that the proposed rule changes would have any impact, or impose any burden, on competition. The proposed rule changes are designed to improve Members' understanding of their rights and obligations with respect to the use of the CNS System and the other services described in the Rules that are subject to these proposed changes. These proposed changes would be applicable to all Members that utilize NSCC's services, and would not alter Members' rights or obligations.

The proposed rule changes to remove descriptions of processing that are no longer accurate would update the Rules to reflect NSCC's current practice and the longstanding operation of the related services. NSCC does not believe that these changes would alter the respective rights or obligations of NSCC or Members.

Therefore, NSCC does not believe that the proposed rule changes would have any impact on competition.

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

NSCC has not solicited or received any written comments relating to this proposal. NSCC will notify the

Commission of any written comments that it receives.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>23</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>24</sup> 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 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2018-006 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-2018-006. This file number should be included on the subject line if email 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSCC-2018-006 and should be submitted on or before October 18, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>25</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

[FR Doc. 2018-20999 Filed 9-26-18; 8:45 am]

**BILLING CODE 8011-01-P**

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-84255; File No. SR-FICC-2018-008]

**Self-Regulatory Organizations; Fixed Income Clearing Corporation; Order Approving Proposed Rule Change To Apply the Government Securities Division Corporation Default Rule to Sponsored Members and Make Other Changes**

September 21, 2018.

On August 6, 2018, Fixed Income Clearing Corporation ("FICC") filed with the U. S. Securities and Exchange Commission ("Commission") proposed rule change SR-FICC-2018-008, 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> The proposed rule change was published for comment in the **Federal Register** on August 21, 2018.<sup>3</sup> The Commission did not receive any comment letters on the proposed rule change. For the reasons discussed below, the Commission approves the proposed rule change.

**I. Description of the Proposed Rule Change**

The proposed rule change would modify FICC's Government Securities Division ("GSD") Rulebook ("GSD

<sup>25</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Securities Exchange Act Release No. 83856 (August 15, 2018), 83 FR 42340 (August 21, 2018) (SR-FICC-2018-008) ("Notice").

<sup>20</sup> *Id.*

<sup>21</sup> 17 CFR 240.17Ad-22(e)(23)(i).

<sup>22</sup> *Id.*

<sup>23</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>24</sup> 17 CFR 240.19b-4(f).