

NSCC–2017–805, as modified by Amendment No. 1, and that NSCC is authorized to implement the proposal as of the date of this notice or the date of an order by the Commission approving proposed rule change SR–NSCC–2017–017, as modified by Amendment No. 1, whichever is later.

By the Commission.

Eduardo A. Aleman,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–83937; File No. SR–NSCC–2018–004]

Self-Regulatory Organizations; National Securities Clearing Corporation; Order Approving Proposed Rule Change To Terminate the Commission Billing Service and the Commission Billing Limited Membership

August 24, 2018.

On July 13, 2018, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR–NSCC–2018–004, pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”).¹ and Rule 19b–4 thereunder.² The proposed rule change was published for comment in the **Federal Register** on July 24, 2018.³ 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 amend the Rules and Procedures of NSCC (“Rules”)⁴ to terminate the Commission Billing service. Currently, the Commission Billing service facilitates the payment of commissions between NSCC’s members (“Members”) and floor brokerage firms⁵ that charge commissions (“Commission Billing

Members”).⁶ Commission Billing Members hold a limited membership at NSCC that allows such firms to participate in NSCC solely for the collection of commissions.⁷ NSCC tabulates all commission payment records received on a monthly basis, and either sends amounts to The Depository Trust Company (“DTC”) for payment (for Members that are also Participants of DTC) or processes payments through the Automated Clearing House.⁸

NSCC proposes to terminate the Commission Billing service and the associated membership category.⁹ NSCC states that over the years the volumes of trades handled by floor brokerage firms have decreased, leading to a significant decrease in the use of this service.¹⁰ NSCC states that the reduced volumes of transactions have caused this service to be provided at a financial loss to NSCC.¹¹ Additionally, NSCC states that due to the use of legacy systems that lack automation and support features, the service continues to rely on manual processes and requires personnel involvement, which can lead to errors.¹² NSCC would implement the proposed changes no later than November 30, 2018.¹³

II. Discussion and Commission Findings

Section 19(b)(2)(C) of the Act 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.¹⁴ The Commission believes the proposal is consistent with Act, specifically Section 17A(b)(3)(F) of the Act and Rules 17Ad–22(e)(21)(iv) under the Act.¹⁵

A. Section 17A(b)(3)(F) of the Act

Section 17A(b)(3)(F) of the Act requires, in part, that the rules of a clearing agency, such as NSCC, be designed to promote the prompt and accurate clearance and settlement of securities transactions.¹⁶

As described above, the proposed rule change would terminate the

Commission Billing service and the associated membership category. The proposed change is designed to eliminate an underutilized service that takes up NSCC resources (through its reliance on manual operations and by operating at a financial loss) and is no longer relied on by Members or the industry. As NSCC would no longer need to divert resources to the service, the proposed rule change would afford NSCC the opportunity to redeploy those resources in a manner that could better support NSCC’s other, more utilized clearance and settlement services. Accordingly, the Commission finds that the proposed rule change is designed to promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.¹⁷

B. Rule 17Ad–22(e)(21)(iv) Under the Act

Rule 17Ad–22(e)(21)(iv) under the Act requires a covered clearing agency¹⁸ to establish, implement, maintain, and enforce written policies and procedures reasonably designed to be efficient and effective in meeting the requirements of its participants and the markets it serves.¹⁹ As described above, use of the Commission Billing service has significantly decreased, as the industry has change and the service no longer provides the same value that it had historically. As a result, NSCC currently operates the service at a financial loss. As such, NSCC has determined that it would be more efficient and effective in meeting the requirements of its Members and the market NSCC serves to eliminate the service. In doing so, NSCC would be able to redirect the resources being consumed by the Commission Billing service to other, more needed services. Therefore, the Commission finds that the proposed rule change is designed to help ensure that NSCC is efficient and effective in meeting the requirements of its participants,

¹⁷ *Id.*

¹⁸ A “covered clearing agency” means, among other things, a clearing agency registered with the Commission under Section 17A of the Exchange Act (15 U.S.C. 78q–1 *et seq.*) that is designated systemically important by the Financial Stability Oversight Counsel (“FSOC”) pursuant to the Payment, Clearing, and Settlement Supervision Act of 2010 (12 U.S.C. 5461 *et seq.*). See 17 CFR 240.17Ad–22(a)(5)–(6). On July 18, 2012, FSOC designated NSCC as systemically important. U.S. Department of the Treasury, “FSOC Makes First Designations in Effort to Protect Against Future Financial Crises,” available at <https://www.treasury.gov/press-center/press-releases/Pages/tg1645.asp>. Therefore, NSCC is a covered clearing agency.

¹⁹ 17 CFR 240.17Ad–22(e)(21)(iv).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b–4.

³ Securities Exchange Act Release No. 83666 (July 18, 2018), 83 FR 35041 (July 24, 2018) (SR–NSCC–2018–004) (“Notice”).

⁴ Available at <http://www.dtcc.com/legal/rules-and-procedures>.

⁵ Floor brokerage firms are members of the New York Stock Exchange (“NYSE”) and NYSE American. Floor brokerage firms execute trades on behalf of their clients for a commission.

⁶ Notice, 83 FR at 35041.

⁷ *Id.*

⁸ Notice, 83 FR at 35041–42.

⁹ Notice, 83 FR at 35042.

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

¹⁴ 15 U.S.C. 78s(b)(2)(C).

¹⁵ 15 U.S.C. 78q–1(b)(3)(F); 17 CFR 240.17Ad–22(e)(21)(iv).

¹⁶ 15 U.S.C. 78q–1(b)(3)(F).

consistent with Rule 17Ad-22(e)(21)(iv) under the Act.²⁰

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act, in particular the requirements of Section 17A of the Act²¹ 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-2018-004 be, and hereby is, *approved*.²²

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²³

Eduardo A. Aleman,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-83952; File No. SR-NSCC-2017-806]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of No Objection to an Advance Notice, as Modified by Amendment No. 1, To Amend the Loss Allocation Rules and Make Other Changes

August 27, 2018.

On December 18, 2017, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) advance notice SR-NSCC-2017-806 pursuant to Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010 (“Clearing Supervision Act”)¹ and Rule 19b-4(n)(1)(i) under the Securities Exchange Act of 1934 (“Act”)² to amend NSCC’s loss allocation rules, accelerate the return of certain deposits to former Members, and make other conforming and technical changes.³ The

advance notice was published for comment in the **Federal Register** on January 30, 2018.⁴ In that publication, the Commission also extended the review period of the advance notice for an additional 60 days, pursuant to Section 806(e)(1)(H) of the Clearing Supervision Act.⁵ On April 10, 2018, the Commission required additional information from NSCC pursuant to Section 806(e)(1)(D) of the Clearing Supervision Act,⁶ which tolled the Commission’s period of review of the advance notice until 60 days from the date the information required by the Commission was received by the Commission.⁷ On June 28, 2018, NSCC filed Amendment No. 1 to the advance

January 8, 2018. Securities Exchange Act Release No. 82428 (January 2, 2018), 83 FR 897 (January 8, 2018) (SR-NSCC-2017-018). On February 8, 2018, the Commission designated a longer period within which to approve, disapprove, or institute proceedings to determine whether to approve or disapprove the Proposed Rule Change. Securities Exchange Act Release No. 82670 (February 8, 2018), 83 FR 6626 (February 14, 2018) (SR-DTC-2017-022, SR-FICC-2017-022, SR-NSCC-2017-018). On March 20, 2018, the Commission instituted proceedings to determine whether to approve or disapprove the Proposed Rule Change. Securities Exchange Act Release No. 82910 (March 20, 2018), 83 FR 12968 (March 26, 2018) (SR-NSCC-2017-018). On June 25, 2018, the Commission designated a longer period for Commission action on the proceedings to determine whether to approve or disapprove the Proposed Rule Change. Securities Exchange Act Release No. 83510 (June 25, 2018), 83 FR 30791 (June 29, 2018) (SR-DTC-2017-022, SR-FICC-2017-022, SR-NSCC-2017-018). On June 28, 2018, NSCC filed Amendment No. 1 to the Proposed Rule Change, which was published in the **Federal Register** on July 19, 2018. Securities Exchange Act Release No. 83633 (July 13, 2018), 83 FR 34227 (July 19, 2018) (SR-NSCC-2017-018). NSCC submitted a courtesy copy of Amendment No. 1 to the Proposed Rule Change through the Commission’s electronic public comment letter mechanism. Accordingly, Amendment No. 1 to the Proposed Rule Change has been publicly available on the Commission’s website at <https://www.sec.gov/rules/sro/nsccl.htm> since June 29, 2018. The Commission did not receive any comments. The proposal, as set forth in both the advance notice and the Proposed Rule Change, each as modified by Amendments No. 1, shall not take effect until all required regulatory actions are completed.

⁴ Securities Exchange Act Release No. 82584 (January 24, 2018), 83 FR 4377 (January 30, 2018) (SR-NSCC-2017-806) (“Notice”).

⁵ Pursuant to Section 806(e)(1)(H) of the Clearing Supervision Act, the Commission may extend the review period of an advance notice for an additional 60 days, if the changes proposed in the advance notice raise novel or complex issues, subject to the Commission providing the clearing agency with prompt written notice of the extension. 12 U.S.C. 5465(e)(1)(H). The Commission found that the advance notice raised complex issues and, accordingly, extended the review period of the advance notice for an additional 60 days until April 17, 2018. See Notice, *supra* note 4.

⁶ 12 U.S.C. 5465(e)(1)(D).

⁷ See 12 U.S.C. 5465(e)(1)(E)(ii) and (G)(ii); see Memorandum from the Office of Clearance and Settlement Supervision, Division of Trading and Markets, titled “Commission’s Request for Additional Information,” available at <https://www.sec.gov/rules/sro/nsccl-an.htm>.

notice to amend and replace in its entirety the advance notice as originally filed on December 18, 2017.⁸ On July 6, 2018, the Commission received a response to its request for additional information in consideration of the advance notice, which, in turn, added a further 60 days to the review period pursuant to Section 806(e)(1)(E) and (G) of the Clearing Supervision Act.⁹ The Commission did not receive any comments. This publication serves as notice that the Commission does not object to the proposed changes set forth in the advance notice, as modified by Amendment No. 1 (hereinafter, “Advance Notice”).

I. Description of the Advance Notice

The Advance Notice consists of proposed changes to NSCC’s Rules and Procedures (“Rules”)¹⁰ in order to (1) modify the loss allocation process; (2) align NSCC’s loss allocation rules with the three clearing agencies of The Depository Trust & Clearing Corporation (“DTCC”)—The Depository Trust Company (“DTC”), Fixed Income Clearing Corporation (“FICC”) (including the Government Securities Division (“FICC/GSD”) and the Mortgage-Backed Securities Division (“FICC/MBSD”)), and NSCC (collectively, the “DTCC Clearing Agencies”);¹¹ (3) reduce the time within which NSCC is required to return a former Member’s Clearing Fund deposit; and (4) make conforming and technical changes. Each of these proposed changes is described below. A detailed description of the specific rule text changes proposed in this Advance

⁸ Securities Exchange Act Release No. 83748 (July 31, 2018), 83 FR 38375 (August 6, 2018) (SR-NSCC-2017-806) (“Notice of Amendment No. 1”). NSCC submitted a courtesy copy of Amendment No. 1 to the advance notice through the Commission’s electronic public comment letter mechanism. Accordingly, Amendment No. 1 to the advance notice has been publicly available on the Commission’s website at <https://www.sec.gov/rules/sro/nsccl-an.htm> since June 29, 2018.

⁹ 12 U.S.C. 5465(e)(1)(E) and (G); see Memorandum from the Office of Clearance and Settlement Supervision, Division of Trading and Markets, titled “Response to the Commission’s Request for Additional Information,” available at <https://www.sec.gov/rules/sro/nsccl-an.htm>.

¹⁰ Each capitalized term not otherwise defined herein has its respective meaning as set forth in the Rules, available at http://www.dtcc.com/-/media/Files/Downloads/legal/rules/nsccl_rules.pdf.

¹¹ DTCC is a user-owned and user-governed holding company and is the parent company of DTC, FICC, and NSCC. DTCC operates on a shared services model with respect to the DTCC Clearing Agencies. Most corporate functions are established and managed on an enterprise-wide basis pursuant to intercompany agreements under which it is generally DTCC that provides a relevant service to a DTCC Clearing Agency.

²⁰ *Id.*

²¹ 15 U.S.C. 78q-1.

²² In approving the proposed rule change, the Commission considered the proposals’ impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

²³ 17 CFR 200.30-3(a)(12).

¹ 12 U.S.C. 5465(e)(1).

² 17 CFR 240.19b-4(n)(1)(i).

³ On December 18, 2017, NSCC filed the advance notice as proposed rule change SR-NSCC-2017-018 with the Commission pursuant to Section 19(b)(1) of the Act and Rule 19b-4 thereunder (“Proposed Rule Change”). 15 U.S.C. 78s(b)(1) and 17 CFR 240.19b-4, respectively. The Proposed Rule Change was published in the **Federal Register** on