



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-99750; File No. SR-NSCC-2024-002]

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

March 15, 2024

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 8, 2024, National Securities Clearing Corporation (“NSCC” or “Corporation”) 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 the NSCC Rules & Procedures (“Rules”) to ensure that the Rules are consistent with the anticipated industry-wide move to a shorter standard settlement cycle for certain securities from the second business day after the trade date (“T+2”) to the first business day after the trade date (“T+1”) (“Shortened Settlement Cycle”), as described in greater detail below.³ The proposed rule change would become effective on May 28, 2024, or such later date as may be announced by the Commission for compliance with Exchange Act Rules 15c6-1 and 15c6-2.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Capitalized terms not defined herein shall have the meaning assigned to such terms in the Rules, available at www.dtcc.com/legal/rules-and-procedures.

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 purpose of the proposed rule change is to modify the NSCC Rules to ensure that the Rules are consistent with the anticipated industry-wide move to a T+1 standard settlement cycle. The proposed rule change is discussed in detail below.

(i) Background

The current standard settlement cycle of T+2 has been in place since 2017, when the Commission amended Exchange Act Rule 15c6-1(a)⁴ to shorten the standard settlement cycle from three business days after the trade date to two business days after the trade date in an effort to reduce credit, market, and liquidity risk, and as a result, reduce systemic risk for U.S. market participants.⁵ In an effort to further reduce market and counterparty risk, decrease clearing capital requirements, reduce liquidity demands, and strengthen and modernize securities settlement in the U.S. financial markets, the

⁴ Exchange Act Rule 15c6-1(a), as amended in 2017, required, with certain exceptions, that a broker or dealer shall not effect or enter into a contract for the purchase or sale of a security (other than an exempted security, government security, municipal security, commercial paper, bankers' acceptances, or commercial bills) that provides for payment of funds and delivery of securities later than the second business day after the date of the contract unless otherwise expressly agreed to by the parties at the time of the transaction. See 17 CFR 240.15c6-1(a).

⁵ See Securities Exchange Act Release No. 80295 (Mar. 22, 2017), 82 FR 15564 (Mar. 29, 2017).

financial services industry has been working on further shortening the standard settlement cycle from T+2 to T+1. In connection therewith, the Commission has adopted a rule change to shorten the standard settlement cycle to T+1.⁶

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

(ii) Proposed Changes to the Rules

The primary purpose of the proposed rule change is to modify the Rules to accommodate the anticipated industry-wide move to the Shortened Settlement Cycle. While the core functions of NSCC will generally continue to operate in the same way in the Shortened Settlement Cycle, NSCC has determined that the move to T+1 would necessitate certain amendments to the Rules because currently the Rules are designed to accommodate a T+2 settlement cycle. In particular, NSCC has identified and is proposing to change (i) rules that have timeframes and/or cutoff times that are tied to the standard settlement cycle and (ii) rules affected by process changes relating to the Shortened Settlement Cycle. In general, these are provisions that (i) directly track the timeframe and/or Settlement Date of the standard settlement cycle, (ii) address non-standard settlement cycles or (iii) provide for timeframes and/or cutoff times that are

⁶ See Securities Exchange Act Release No. 96930 (Feb. 15, 2023), 88 FR 13872 (Mar. 6, 2023) (S7-05-22) (Shortening the Securities Transaction Settlement Cycle) (“T+1 Adopting Release”).

connected to or are affected by the timing of the standard settlement cycle and would need to be changed to accommodate the Shortened Settlement Cycle.

For example, the Rules contain certain provisions that refer to “T+2” as the timeframe and Settlement Date of the standard settlement cycle. These provisions would be updated to reflect “T+1” in conformance with the Shortened Settlement Cycle. Similarly, a number of provisions in the Rules refer to timeframes and Settlement Dates that are intended to be shorter/earlier or later, as applicable, than the timeframe and/or Settlement Date of the standard settlement cycle. These provisions also must be changed to accommodate the Shortened Settlement Cycle. Likewise, the length and timing of certain cutoff times are based on either a standard settlement cycle or a non-standard settlement cycle. Therefore, when the timeframe and Settlement Date of the standard settlement cycle and nonstandard settlement cycle are changed, these cutoff times would also need to be revised accordingly.

The proposed changes to accommodate the Shortened Settlement Cycle would impact NSCC’s Rules regarding: (i) Definitions; (ii) Supplemental Liquidity Deposits; (iii) Trade Comparison and Recording; (iv) the Special Representative Service; (v) the Continuous Net Settlement (“CNS”) System and CNS Accounting Operation; (vi) the Balance Order Accounting Operation; (vii) the Foreign Security Accounting Operation; (viii) the ACATS Settlement Accounting Operation; and (ix) the NSCC guaranty. NSCC would also make other technical, clarifying changes and corrections to these Rules. The proposed changes are discussed in detail below.

A. Definitions (Rule 1 and Procedure XIII)

NSCC proposes to add to Rule 1 a new definition of the term “Regular Way” to mean “settlement in accordance with the standard settlement cycle set forth in Rule 15c6-

1(a) of the Exchange Act.”⁷ The term Regular Way is used throughout the NSCC Rules to refer to settlement of transactions in accordance with settlement cycle set forth in Rule 15c6-1(a), and NSCC therefore believes that adding this definition will provide additional clarity and certainty in its Rules. NSCC would also revise the definition of “T” in Procedure XIII to state that T+1 is normally the Settlement Date (as opposed to T+1 being the next Business Date and T+2 being the Settlement Date).

B. Supplemental Liquidity Deposits (Rule 4A)

NSCC Rule 4A sets forth NSCC’s requirements regarding Supplemental Liquidity Deposits, which are additional cash deposits designed to cover the heightened liquidity exposure presented by those Members whose activity would pose the largest liquidity exposure to NSCC. NSCC proposes to modify Rule 4A to more accurately define certain terms and definitions used with respect to Supplemental Liquidity Deposits under the Shortened Settlement Cycle.

NSCC proposes to revise the definition of “Options Expiration Activity Period” to delete references to the “second Settlement Day” and replace them with references to the “Settlement Date” to align with the Shortened Settlement Cycle for the equity options it accepts from The Options Clearing Corporation (“OCC”) under the Stock Options and Futures Settlement Agreement, dated August 5, 2017, between NSCC and OCC.⁸

NSCC also proposes to revise the definition of “Daily Liquidity Need” to provide additional clarity for the Supplemental Liquidity Deposit process more generally. Specifically, NSCC would reframe the definition of “Daily Liquidity Need” in the context of NSCC’s projected payment obligations as opposed to the amount of resources needed. The revised definition would also remove references to the “three day settlement

⁷ See *supra* note 3 and associated text.

⁸ See Securities Exchange Act Release Nos. 81266, 81260 (Jul. 31, 2017) (File Nos. SR-NSCC-2017-007; SR-OCC-2017-013), 82 FR 36484 (Aug. 4, 2017).

cycle” and more accurately define “Daily Liquidity Need” to mean, on any Business Day, the payment obligations of NSCC as a central counterparty, as calculated and determined by NSCC, for all projected same day, intraday and multiday settlement activity (where appropriate), assuming the default on that day of an Unaffiliated Member or Affiliated Family. The proposed changes would not impact the actual determination of the Daily Liquidity Need amount. Rather, the proposed changes are intended to more accurately describe NSCC’s daily liquidity “need.” NSCC thinks it is more appropriate to describe this definition in terms of NSCC’s “payment obligations” and not as an “amount of resources.” In addition, the proposed changes would more closely reflect the language and requirements of Exchange Act Rule 17Ad-22(e)(7)(i).⁹

C. Trade Comparison and Recording (Procedure II)

NSCC offers trade comparison and recording services for eligible equity and debt securities. NSCC proposes several changes to its trade comparison and recording procedures in connection with the move to the Shortened Settlement Cycle.

Procedure II.B. - Equity and Listed Debt Securities -- Locked-In Trade Input

NSCC proposes to modify several sections of Procedure II concerning the recording of equity securities transactions. Specifically, NSCC would remove references to “next day” trades from the procedures for recording of non-Regular Way transactions because next day trades will be Regular Way transactions under the Shortened Settlement Cycle. NSCC would also revise procedural requirements for certain trades that will be

⁹ Exchange Act Rule 17Ad-22(e)(7)(i) requires that each covered clearing agency establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively measure, monitor, and manage the liquidity risk that arises in or is borne by the covered clearing agency, including measuring, monitoring, and managing its settlement and funding flows on an ongoing and timely basis, and its use of intraday liquidity by maintaining sufficient liquid resources at the minimum in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of foreseeable stress scenarios that includes, but is not limited to, the default of the participant family that would generate the largest aggregate payment obligation for the covered clearing agency in extreme but plausible market conditions. See 17 CFR 240.17Ad-22(e)(7)(i).

processed on a trade-for-trade basis to remove a reference to trades “scheduled to settle between a dividend ex-date and record date” and replace it with a reference to trades “where the trade date and Settlement Date (which is a cash trade) are the same date as a dividend ex-date and record date,” as the dividend ex-date will be the same day as record date under the Shortened Settlement Cycle. Additionally, NSCC would relocate a statement concerning the treatment of next day as-of trades with modifications to clarify that such trades would be “Regular Way as-of-trades” under the Shortened Settlement Cycle. NSCC would also make a technical clean up change to capitalize the defined term CNS Accounting Operation.

Procedure II.C. - Debt Securities

NSCC proposes to update its procedures for debt security trade input and comparison and the resolution of uncomparated Regular Way debt securities. Specifically, NSCC would remove Section C.1(o) of Procedure II concerning the trade input and comparison of transactions for T+1 settlement because such transactions would be addressed by the procedures for Regular Way transactions under the Shortened Settlement Cycle and renumber the following sections of Section C.1. to reflect the removal of this provision. NSCC would also remove a reference to “Balance Order processing” from Section C.2(h) of Procedure II concerning transactions compared after certain cut-off times because Balance Orders submitted after the cutoff time would not be assigned a new date (only CNS-eligible transactions and trade-for-trade Special Trades).

Procedure II.F. - Index Receipts (Exchange-Traded Funds)

NSCC proposes to amend its creation/redemption input and settlement procedures for exchange-traded funds (“ETF(s),” also referred to as “index receipts” in the Rules). The proposed changes would (i) reflect that T+1 would be Regular Way settlement under the Shortened Settlement Cycle; (ii) allow for the creation and redemption of index receipts on a same-day basis; and (iii) make other clarifications to the procedures.

NSCC would amend Section F of Procedure II to remove the reference to “T+1 or later” settlement and instead state that Index Receipt Agents may elect “same day, Regular Way or extended settlement” for index receipts. The proposed rule change would reflect that T+1 would be Regular Way settlement under the Shortened Settlement Cycle and add a new election for same-day settlement of index receipts.

NSCC also proposes additional amendments concerning the creation and redemption of index receipts for same-day settlement. NSCC would add new rule language to permit Index Receipt Agents to include an additional cash collateral amount (“Index Receipt Cash Collateral Amount”) for same-day settling index receipts, which would be subject to limits established by NSCC from time to time. Changes to the Index Receipt Cash Collateral Amount limits would be announced to Members by Important Notice. NSCC would also report any necessary adjustments to the Index Receipt Cash Collateral Amount based on end of day values (“Collateral Cash Adjustments”) for non-guaranteed payment order or money settlement between the Members on the next business day. In addition, NSCC would amend the procedure to provide that any creation and redemption instructions for same-day settling index receipts that exceed the Index Receipt Cash Collateral Amount limitations established by NSCC would be rejected. NSCC would also require that same-day settling index receipts, like other index receipts, be received by the cut-off time as designated by the NSCC from time to time.¹⁰

The adoption of rules for same-day creation/redemption is designed to allow Authorized Participants to cover short positions in ETF shares. NSCC’s rules currently allow Index Receipt Agents to elect a Settlement Date of T+1 or later for ETFs. Under

¹⁰ NSCC processing and cut-off times can be found in the DTCC Learning Center (e.g., ETF timelines are currently available at <https://dtcclearning.com/products-and-services/equities-clearing/etf-processing/etf-timeline.html#heading-0>), in various Member user guides and requirements documents, and for T+1 specifically, in the T+1 settlement documentation available on the DTCC website (available at <https://www.dtcc.com/ust1/documentation>). Changes to standard CNS and ETF create/redeem cut-off times are generally announced to Members through Important Notices.

the current T+2 settlement cycle, Authorized Participants may address short positions through the submission of creations/redemptions for next-day settlement (i.e., T+1). However, under the Shortened Settlement Cycle, Authorized Participants would need to submit creations/redemptions on a same-day basis to cover short positions scheduled for settlement on T+1.¹¹ In the absence of the proposed same-day cycle, Authorized Participants would need to process this activity on an ex-clearing basis, which would result in excess capital expenses. The proposed rule change would also provide Index Receipt Agents with the option to require an additional Index Receipt Cash Collateral Amount as part of the creation or redemption to account for potential market moves in the ETF or underlying components between the submission of the creation or redemption earlier in the day, which would be based on the prior day's (i.e., T-1) closing price which aligns with net asset value, and the settlement of such obligations at the end of the day (i.e., T) during NSCC's end-of-day settlement cycle. This "buffer" amount would be subject to limits established by NSCC from time to time.¹² NSCC would also report and facilitate Collateral Cash Adjustments amounts based on end of day values to be settled between Members on the following business day to "true-up" the Index Receipt Cash Collateral Amount amounts.

NSCC would also clarify in its ETF settlement procedures that component securities of index receipts would be netted with all other CNS and Non-CNS securities and entered into the CNS Accounting Operation or the Balance Order Accounting Operation for trade-for-trade settlement, as applicable. The proposed change is not

¹¹ Currently, NSCC allows for same-day settling cash trades in the secondary market, even in the T+2 environment. The proposed rule change would allow same-day settling trades in the primary market.

¹² NSCC would initially establish this limit at 3% of the contract settlement amount of the order, which would be priced based on the prior night's net asset value. NSCC will monitor the use and overall collateral buffer amounts over time and may adjust this threshold as needed.

required to accommodate the move to the Shortened Settlement Cycle but would provide additional clarity and accuracy in the Rules.

Procedure II.G. – Reports and Output

NSCC would also update its procedures for issuing trade reports and output to align with the Shortened Settlement Cycle. Specifically, NSCC proposes to replace references to “T+1” with “T” and references to “T+2” with “T+1” to reflect the change in cutoff timeframes resulting from a one day shortening of the standard settlement cycle.

Procedure II.H. – Consolidated Trade Summaries

NSCC’s Consolidated Trade Summary System defines the expected settlement path for each transaction received by the Universal Trade Capture (“UTC”) service as CNS or non-CNS eligible. NSCC proposes to update its procedures concerning the Consolidated Trade Summaries to reflect anticipated processes under the Shortened Settlement Cycle and make other clarifying and clean-up changes to the Rules. Specifically, NSCC would make clarifying changes regarding the reporting of Balance Order transactions under the Shortened Settlement Cycle to state, more generally, that each Consolidated Trade Summary would include Receive and Deliver instructions to each Member to settle directly with its counterparties. The proposed change is intended to reflect that the three Consolidated Trade Summaries made available by NSCC will not include the same information on all three reports (e.g., the first two cycles would report next-day settling Balance Order transactions while the third cycle would report same-day settling Balance Order transactions trades). In addition, NSCC would clarify that, to facilitate settlement of Balance Order transactions that are trade-for-trade items, NSCC may aggregate and net Receive and Deliver instructions for trade-for-trade items between counterparties such that a Member may have only one net buy obligation or sell obligation, where applicable, in a particular security on a given day with a given counterparty. NSCC would also remove a redundant reference to “trade-for-trade”

transactions in the first sentence of Section H because “trade-for-trade” transactions are a subset of Balance Order transactions. NSCC would also make a typographical correction to the procedure.

D. Special Representative Service (Procedure IV)

NSCC’s Special Representative Service allows Members that are authorized by one or more other persons to act on their behalf to submit transactions in securities to NSCC. As part of this service, NSCC permits Members to clear and settle transactions executed for them by other Members acting as their Special Representative to accommodate (i) a Member with multiple affiliate accounts who wishes to move a position resulting from an “original trade” in the process of clearance from one affiliate account to another and (ii) a Member that relies on its Special Representative to execute a trade in any market on its behalf to enable the resulting position to be moved from the Special Representative to that Member (the “Correspondent Clearing Service”).

NSCC proposes to delete a procedural provision related to the Correspondent Clearing Service, which states that transactions (other than cash, or next day fixed-income transactions, or cash equity transactions received after the Corporation’s designated cut-off time) which are accepted by NSCC are then entered into the Balance Order Accounting Operation or CNS Accounting Operation which, when processed through the Balance Order Accounting Operation or CNS Accounting Operation, effectively net the Special Representative out of the original trade. NSCC proposes to delete this statement because (i) under the Shortened Settlement Cycle, there will no longer be next day fixed-income transactions (i.e., such transactions will be Regular Way) and (ii) the statement, more generally, is not a rule or procedural requirement concerning the Correspondent Clearing Service, but rather, is simply a description of an expected outcome of the service.

E. Continuous Net Settlement System (Rule 11 and Procedure VII)

Rule 11 sets forth requirements for NSCC's CNS system, which is NSCC's core netting, allotting and fail-control engine. Within CNS, each security is netted to one position per Member, with NSCC as its central counterparty. Procedure VII sets forth additional procedural requirements for the CNS Accounting Operation. NSCC proposes several changes to Rule 11 and Procedure VII to align certain CNS requirements with the Shortened Settlement Cycle and make other clarifying and technical changes to the Rules.

Rule 11 - CNS System

NSCC proposes to revise Section 4 of Rule 11 concerning projection reports to remove rule text related to positions or obligations due to settle on "the next settlement day." Under the Shortened Settlement Cycle, the CNS projection report that will be issued on each Settlement Date will no longer include next day settling positions because it will only cover obligations for a one-day settlement cycle and will be issued during early morning hours on the Settlement Date.

NSCC also proposes to revise Section 8(d) of Rule 11 concerning the treatment of "as of" trades¹³ subject to corporate actions to replace references to "two settlement days" with "one settlement day" and to replace "at least one settlement day prior to the Due Bill Redemption Date" with "prior to or on the Due Bill Redemption Date" to reflect the move to a one-day settlement cycle. Further, NSCC would update language concerning the cutoff time for "as of" trades being accorded dividend protection in CNS to replace a reference to "less than two settlement days or one Business Day, as the case may be, prior

¹³ "As of" trades are trades that do not fit standard industry conventions due to either the trade being submitted after the trade date or the settlement date being adjusted because it is past the stated contractual settlement date on the trade.

to the payable date or the Due Bill Redemption Date” with a more general statement referring to the timeframes specified within Section 8(d) of Rule 11.

Procedure VII.B. – CNS Accounting Operation – Consolidated Trade Summary

As noted above, NSCC’s Consolidated Trade Summary System defines the expected settlement path for each transaction received by the UTC service as CNS or non-CNS eligible. NSCC proposes to update its procedures concerning the Consolidated Trade Summary reports to reflect anticipated CNS processes under the Shortened Settlement Cycle.

NSCC proposes to revise Section B of Procedure VII concerning the Consolidated Trade Summary reports made available to Members to replace references to “T+2” with “T+1.” NSCC would also remove reference to “T+1 and older as-of trades and next day settling trades not previously reported on the prior Consolidated Trade Summary” and replace that with a statement regarding “trades compared or recorded through the Corporation’s cutoff time with respect to trades due to settle on the same settlement day” because there will no longer be a distinct concept of “next day settling trades” under the Shortened Settlement Cycle. NSCC also proposes to remove certain descriptive examples (e.g., references to actions occurring on specific days of the week) because these provisions (i) would no longer be accurate for the Shortened Settlement Cycle and (ii) do not constitute rules or procedural requirements for Consolidated Trade Summaries (rather, they are only examples of potential occurrences). NSCC would also remove a sentence stating that each Consolidated Trade Summary issued on each settlement day reports activity compared or recorded, including cash trades which are due to settle on that same day for the period beginning after the cutoff time for the prior Consolidated Trade Summary and ending on the Corporation’s cutoff time for such Consolidated Trade Summary, because NSCC believes that the timing for compared and recorded trades to be

included on the Consolidated Trade Summaries would now be adequately summarized by revised provisions discussed above.

Additionally, NSCC proposes several clean up changes to Procedure VII.B, which are not required to accommodate the move to the Shortened Settlement Cycle but would provide additional clarity and accuracy in the Rules. NSCC would update incorrect references to other NSCC Procedures, which are currently referred to as “Section” II, III and IV, to clarify that these are references to “Procedure” II, III and IV. NSCC also proposes to remove statements regarding the formatting of the Consolidated Trade Summaries (i.e., that trade information is provided in CUSIP order, reported as broad buys and sells by marketplace or source, netted by issue, quantity and money) because the Consolidated Trade Summaries are currently made available to Members through a dashboard in a web-based portal, which is searchable in multiple formats, rather than provided in one standardized format.

Procedure VII.D. – CNS Accounting Operation – Controlling Deliveries to CNS

NSCC proposes to modify Section D of Procedure VII, which describes the process for Members to control the delivery of securities to satisfy short positions in CNS. Section D of Procedure VII currently states that Members are required to provide instructions to exempt from delivery any transaction “compared or received on SD-1 or thereafter, including cash or next day transactions, which are processed for next day or same day settlement”¹⁴ and which create or increase a short position. NSCC would revise this statement to clarify that, under the Shortened Settlement Cycle, Members must provide instructions to exempt from delivery any transactions “compared or received on Settlement Date,” which are processed for “same day settlement” and which create or increase a short position. NSCC would also revise the introductory paragraph of Section

¹⁴ “SD-1” refers to the date prior to the Settlement Date.

D of Procedure VII to clarify that such instructions are the “standing” instructions provided by Members and make conforming changes throughout the procedure to reflect that such an exemption would now be referred to as the “Same Day Settling Exemption” (as opposed to the “One Day Settling Exemption”).

NSCC also proposes to delete subsection D.1. of Procedure VII concerning the CNS projection report and other references to projected positions and the projection report throughout Procedure VII. Under the Shortened Settlement Cycle, the CNS projection file would no longer be used for the exemption process because it will be distributed at 2:00AM ET on Settlement Date, after the night cycle completes. However, NSCC would clarify in newly renumbered Section D.1(a) that Members may use other position reporting made available by NSCC to set exemptions and control deliveries.

In addition, NSCC proposes to modify subsection D.2. of Procedure VII (newly proposed Section D.1) concerning exemptions. NSCC would update the exemption override procedures to remove a reference to “one day” settling transactions and make additional conforming changes to replace references to the “One Day Settling Exemption” with the “Same Day Settling Exemption.” NSCC would also revise current subsection D.2(b) of Procedure VII (to be renumbered as subsection D.1(b)) to replace an incorrect reference to “four” types of qualified activity with “three” types of qualified activity and correct an error in the numbering of the circumstances in which Standing Exemption instructions would govern all of the Member’s short positions.

Procedure VII.G. – CNS Accounting Operation – CNS Dividend Accounting

NSCC proposes to modify subsection G.2. of Procedure VII concerning the Dividend Activity Report to update the submission cutoff time for “as of” trades being included in the payment calculation from “two days prior to payable date” to “one Settlement Date prior to payable date” to align with the Shortened Settlement Cycle. NSCC also proposes to revise subsection G.3 of Procedure VII regarding Due Bill

Accounting to reflect that, in the case of stock splits, the Current Market Price would be adjusted by the rate of the split on the Due Bill Redemption Date under the Shortened Settlement Cycle as opposed to during the one day prior to the Due Bill Redemption Date under the current T+2 settlement cycle.

Procedure VII.H. – CNS Accounting Operation – Miscellaneous CNS Activity

Section H of Procedure VII describes the timeline of actions that must occur in connection with the processing of eligible corporate reorganization events. The processing of mandatory reorganizations occurs automatically; however, the processing of voluntary reorganizations through the CNS Reorganization Processing System requires certain actions to be taken by both NSCC and by Members with positions in the subject security during the period of time leading up to and following the expiration of the event. This period of time is referred to in the Rules as the “protect period” and is defined by reference to the expiration date, or “E,” of a voluntary reorganization (e.g., “E+1” is one day past the expiration date of the event). NSCC proposes a number of updates to the Corporate Reorganization rules in subsection H.4. of Procedure VII to align the Procedures with the Shortened Settlement Cycle.

NSCC would remove references to the current standard two business day protect period and replace them with references to the one business day protect period anticipated under the Shortened Settlement Cycle. NSCC also proposes to update the processing timeframes for voluntary reorganizations to reflect the new timeframes under the Shortened Settlement Cycle. Specifically, the following timeframes will be changed for T+1.

- The time for NSCC to advise Members with short positions of their potential liability will move from “after the night cycle on E+1” to “on E, prior to the night cycle commencing for E+1.” (NSCC would also clarify

that any same day settling trade that is received for processing after the night cycle “completes” on E+1 will be designated a Special Trade.)

- The time for long position Members to instruct NSCC to move positions to a CNS Reorganization Sub-Account will move from “on E+1” to “on E, prior to the night cycle commencing for E+1.”
- The time for Members to add, adjust, or delete long positions to be moved to the CNS Reorganization Sub-Account will move from “E+2” to “E+1.” (NSCC would also clarify that this time period is known as the “CNS End Date” and/or “Protect Expiration Date”).
- The time at which (i) long positions for which proper instructions have been received are moved to a CNS Reorganization Sub-Account and (ii) NSCC notifies Members with long positions of their final protection and Members with short positions of their final liability will move from “after day cycle on E+2” to “after the day cycle completes on E+1.”
- The time at which short positions in the CNS Reorganization Sub-Account are marked from the Current Market Price to the voluntary offer price will move from E+3 to E+2.

F. Balance Order Accounting Operation (Procedure V)

NSCC provides a Balance Order Accounting system for securities that are ineligible for processing in CNS. The Balance Order Accounting Operation produces netted and allotted receive and deliver instructions for NSCC Members. NSCC does not become a counterparty to Balance Order transactions, but it does provide a trade guaranty to the receive and deliver parties, which remains effective through the close of business on the scheduled settlement date.

NSCC proposes to revise Procedure V.B. regarding trade-for-trade Balance Orders to update the types of transactions that would be processed on a trade-for-trade

basis under the Shortened Settlement Cycle. Specifically, NSCC would update the rule to reflect that those transactions compared or otherwise entered to the Balance Order Accounting Operation on Settlement Date (rather than those transactions compared or otherwise entered to the Balance Order Accounting Operation on SD-1 or thereafter) would be processed on a trade-for-trade basis as there will be no Balance Order netting on Settlement Date under the Shortened Settlement Cycle. NSCC would also remove next day transactions from the list because those transactions would be Regular Way trades under the Shortened Settlement Cycle.

In addition, NSCC would modify Procedure V.E. regarding Consolidated Trade Summaries for Balance Order transactions to remove specific references to same day and next day settling Balance Order transactions and more generally state that any Balance Order transactions generated by the Corporation will be included on three separate Consolidated Trade Summaries made available to participants. Under the Shortened Settlement Cycle, each of the three Consolidated Trade Summaries would no longer contain information on both same day and next day settling Balance Orders.

NSCC also proposes clean-up changes to Procedure V.A. to update incorrect references to other NSCC Procedures, which are currently referred to as “Section” II, III and IV, to clarify that these are references to “Procedure” II, III and IV.

G. Foreign Security Accounting Operation (Procedure VI)

NSCC’s Foreign Security Accounting Operation processes transactions in Foreign Securities and produces Foreign Security receive and deliver instructions, which identify the receive and deliver obligations of Members. NSCC would revise Procedure VI to remove a reference to “SD-1 or thereafter” because, under the Shortened Settlement Cycle, transactions submitted on “SD-1” would generally be Regular Way transactions and transactions submitted on Settlement Date would not be accepted.

NSCC would also revise Procedure VI to clarify that (i) Foreign Securities may be netted on a Member-to-Member basis or processed on a trade-for-trade basis; (ii) transactions in Foreign Securities which are “submitted” (as opposed to “identified”) as Special Trades are processed on a trade-for-trade basis; and (iii) transactions in Foreign Securities that are designated by NSCC to be Special Trades may net only on a Member-to-Member basis. These proposed changes are not required to accommodate the move to the Shortened Settlement Cycle but would provide additional clarity and accuracy in the Rules.

H. ACATS Settlement Accounting Operation (Procedure XVIII)

NSCC’s Automated Customer Account Transfer Service (“ACATS”) enables Members and Qualified Securities Depositories (i.e., The Depository Trust Company), on behalf of their participants, to transfer accounts of their customers between themselves on an automated basis. Procedure XVIII sets forth the details of the ACATS Settlement Accounting Operation.

As discussed in the CNS Accounting Operation procedure sections above, Members have the ability to elect to deliver all or part of any short position through the use of Exemptions. Such exemptions may also be utilized in the ACATS process. NSCC therefore proposes conforming changes to Procedure XVIII to replace a reference to the “One Day Settling Exemption” with the “Same Day Settling Exemption” to align with processes under the Shortened Settlement Cycle.

I. NSCC’s Guaranty (Addendum K)

Finally, Addendum K sets forth the timing for NSCC’s assumption of liability for guaranteed transactions as a central counterparty. Addendum K generally provides that CNS and Balance Order transactions are guaranteed as of the point they have (i) for bilateral submissions by Members, been validated and compared by NSCC and (ii) for

locked-in submissions, been validated by NSCC. For Balance Order transactions, this guarantee remains effective through the close of business on the scheduled settlement date (currently specified as “T+2” in the Rules).

NSCC proposes to update Addendum K concerning NSCC’s guaranty for Balance Order transactions to remove a reference to the current T+2 settlement cycle and replace it with a more general statement that Balance Order transactions would be guaranteed through the close of business on their contractual Settlement Date. NSCC would also remove a reference to “same day or one day” settling trades from a statement concerning the guaranty of transactions from interfacing clearing corporations because (i) one day settling trades would be Regular Way trades under the Shortened Settlement Cycle and (ii) this requirement would apply to transactions generally from an interfacing clearing corporation and not just same day or one day settling trades.

Implementation Timeframe

The proposed rule change would not become effective until May 28, 2024, or such later date as may be announced by the Commission for compliance for Exchange Act Rules 15c6-1 and 15c6-2.

2. Statutory Basis

NSCC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. Section 17A(b)(3)(F) of Act¹⁵ requires, in part, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities

¹⁵ 15 U.S.C. 78q-1(b)(3)(F).

transactions. NSCC believes the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of Act¹⁶ for the reasons set forth below.

The proposed rule change would update NSCC's Rules to accommodate anticipated processing timelines under a Shortened Settlement Cycle. The proposed rule change would modify the timeframes, cutoff times and/or associated outputs for certain processes related to NSCC's clearance and settlement operations, including Rules related to: (i) Definitions; (ii) Supplemental Liquidity Deposits; (iii) Trade Comparison and Recording; (iv) the Special Representative Service; (v) the Continuous Net Settlement ("CNS") System and CNS Accounting Operation; (vi) the Balance Order Accounting Operation; (vii) the Foreign Security Accounting Operation; (viii) the ACATS Settlement Accounting Operation; and (ix) the NSCC guaranty. These changes are necessary for NSCC to clear and settle transactions promptly and accurately under the Shortened Settlement Cycle. NSCC therefore believes the proposed rule change is designed to promote the prompt and accurate clearance and settlement of securities transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.¹⁷

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

Section 17A(b)(3)(I) of Act¹⁸ requires that the rules of a clearing agency do not impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. NSCC does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. While the anticipated industry-wide move to the Shortened

¹⁶ Id.

¹⁷ Id.

¹⁸ 15 U.S.C. 78q-1(b)(3)(I).

Settlement Cycle would likely have an impact on competition because the cost of required system changes for individual firms to shift from a T+2 to T+1 settlement cycle may have a disproportionate impact on those firms with relatively smaller revenue bases, NSCC does not believe that the proposed rule changes themselves would have a significant impact on competition because they are operational in nature and consist of changes to processing timeframes and cutoff times for NSCC's services. Moreover, NSCC believes that the proposed rule changes are necessary because they are required to facilitate and accommodate the anticipated move to the Shortened Settlement Cycle and facilitate compliance with rules adopted in the T+1 Adopting Release and are appropriate in that they have been specifically tailored to conform with the requirements of the Shortened Settlement Cycle and rules in the T+1 Adopting Release.¹⁹ Therefore, NSCC does not believe that the proposed rule changes would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

NSCC has not received or solicited any written comments relating to this proposal. If any written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

¹⁹ See supra note 6 and related discussion.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit-comments>. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

NSCC reserves the right not to respond to any comments received.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's internet comment form (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-NSCC-2024-002 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-2024-002. 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 (<https://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 a.m. and 3 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 (dtcc.com/legal/sec-rule-filings). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-NSCC-2024-002 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁰

Sherry R. Haywood,
Assistant Secretary.

²⁰

17 CFR 200.30-3(a)(12).

