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Page 1 of \* 66

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
Form 19b-4

File No. \* SR 2024 - \* 002

Amendment No. (req. for Amendments \*)

Filing by National Securities Clearing Corporation

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>
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Rule

<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)
<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)
<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010  
Section 806(e)(1) \*

Section 806(e)(2) \*

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934  
Section 3C(b)(2) \*

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Accommodate a Shorter Standard Settlement Cycle and Make Other Changes

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \*  Last Name \*

Title \*

E-mail \*

Telephone \*  Fax

**Signature**

Pursuant to the requirements of the Securities Exchange of 1934, National Securities Clearing Corporation has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date  (Title \*)

By

(Name \*)

NOTE: Clicking the signature block at right will initiate digitally signing the form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Date: 2024.03.08  
10:55:32 -05'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS website.

**Form 19b-4 Information \***

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Narrative - NSCC T+1 Operational Ch

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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Exhibit 1A - NSCC T+1 Operational C

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2- Notices, Written Comments, Transcripts, Other Communications**

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit Sent As Paper Document

**Exhibit 3 - Form, Report, or Questionnaire**

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit Sent As Paper Document

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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Exhibit 5 - NSCC T+1 Operational Che

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

## 1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> National Securities Clearing Corporation (“NSCC” or “Corporation”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to modify 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”). 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. The proposed modifications to the Rules are annexed hereto as Exhibit 5.<sup>3</sup>

(b) Not applicable.

(c) Not applicable.

## 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Businesses, Technology and Operations Committee of the Board of Directors of NSCC on December 19, 2023.

## 3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

### (a) 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)<sup>4</sup> to shorten the standard settlement cycle

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

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

<sup>3</sup> 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](http://www.dtcc.com/legal/rules-and-procedures).

<sup>4</sup> 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

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.<sup>5</sup> 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 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.<sup>6</sup>

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 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

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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).

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

<sup>6</sup> 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”).

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."<sup>7</sup> 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.<sup>8</sup>

NSCC also proposes to revise the definition of "Daily Liquidity Need" to provide additional clarity for the Supplemental Liquidity Deposit process more generally. Specifically,

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<sup>7</sup> See supra note 3 and associated text.

<sup>8</sup> 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).

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 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).<sup>9</sup>

### 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 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

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<sup>9</sup> 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).

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 uncomparing 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.<sup>10</sup>

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<sup>10</sup> 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->

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 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.<sup>11</sup> 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.<sup>12</sup> 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 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"

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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](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.

<sup>11</sup> 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.

<sup>12</sup> 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.



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" trades<sup>13</sup> 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 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

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<sup>13</sup> "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.

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"<sup>14</sup> 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 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.

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<sup>14</sup> "SD-1" refers to the date prior to the Settlement Date.

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.

#### (b) 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 Act<sup>15</sup> 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 transactions. NSCC believes the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of Act<sup>16</sup> 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.<sup>17</sup>

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

<sup>16</sup> Id.

<sup>17</sup> Id.

#### **4. Self-Regulatory Organization's Statement on Burden on Competition**

Section 17A(b)(3)(I) of Act<sup>18</sup> 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 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.<sup>19</sup> 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.

#### **5. Self-Regulatory Organization'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.

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](mailto:tradingandmarkets@sec.gov) or 202-551-5777.

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

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<sup>18</sup> 15 U.S.C. 78q-1(b)(3)(I).

<sup>19</sup> See supra note 6 and related discussion.



**6. Extension of Time Period for Commission Action**

Not applicable.

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) Not applicable.

**8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

Not applicable.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not applicable.

**10. Advance Notice Filed Pursuant to Section 806(e) of the Payment, Clearing, and Settlement Supervision Act of 2010**

Not applicable.

**11. Exhibits**

Exhibit 1 – Not applicable.

Exhibit 1A – Notice of proposed rule change for publication in the Federal Register.

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules.

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-NSCC-2024-002)

[DATE]

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March \_\_, 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.<sup>3</sup> The proposed rule change would become effective on May 28, 2024, or such later date as may

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

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

<sup>3</sup> 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](http://www.dtcc.com/legal/rules-and-procedures).

be announced by the Commission for compliance with Exchange Act Rules 15c6-1 and 15c6-2.

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)<sup>4</sup> to shorten the standard

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<sup>4</sup> 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).

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.<sup>5</sup> 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 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.<sup>6</sup>

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.

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

<sup>6</sup> 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”).

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 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."<sup>7</sup> 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

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<sup>7</sup> See supra note 3 and associated text.

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.<sup>8</sup>

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 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

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<sup>8</sup> 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).

resources.” In addition, the proposed changes would more closely reflect the language and requirements of Exchange Act Rule 17Ad-22(e)(7)(i).<sup>9</sup>

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 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

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<sup>9</sup> 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).



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 uncomparing 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.<sup>10</sup>

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<sup>10</sup> 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

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 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.<sup>11</sup> 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.<sup>12</sup> NSCC would also report and

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CNS and ETF create/redeem cut-off times are generally announced to Members through Important Notices.

<sup>11</sup> 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.

<sup>12</sup> 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.

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 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” trades<sup>13</sup> 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 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

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<sup>13</sup> “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.

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”<sup>14</sup> 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 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

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<sup>14</sup> “SD-1” refers to the date prior to the Settlement Date.

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 Oder 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 Act<sup>15</sup> 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 transactions. NSCC believes the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of Act<sup>16</sup> 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

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

<sup>16</sup> Id.



(“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.<sup>17</sup>

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

Section 17A(b)(3)(I) of Act<sup>18</sup> 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 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,

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<sup>17</sup> Id.

<sup>18</sup> 15 U.S.C. 78q-1(b)(3)(I).

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.<sup>19</sup> 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.

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

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<sup>19</sup> See supra note 6 and related discussion.

regarding this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at [tradingandmarkets@sec.gov](mailto: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 ([www.sec.gov/rules/sro.shtml](http://www.sec.gov/rules/sro.shtml)); or
- Send an e-mail to [rule-comments@sec.gov](mailto: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 e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website ([www.sec.gov/rules/sro.shtml](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 ([dtcc.com/legal/sec-rule-filings](http://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 from publication in the Federal Register].

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

Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).

# NATIONAL SECURITIES CLEARING CORPORATION

## RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

**Bold and underlined text** indicates additional proposed added language.

**~~Bold and strikethrough text~~** indicates additional proposed deleted language filing.

NATIONAL SECURITIES CLEARING CORPORATION RULES

RULE 1. DEFINITIONS AND DESCRIPTIONS

**[Changes to this Rule, as amended by File No. SR-NSCC-2024-002, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on May 28, 2024, or such later date as may be announced by the SEC for compliance with Exchange Act Rules 15c6-1 and 15c6-2. Upon the implementation of these changes, this legend will automatically be removed from this Rule.]**

\* \* \*

**Regular Way**

**The term “Regular Way” means settlement in accordance with the standard settlement cycle set forth in Rule 15c6-1(a) of the Exchange Act.**

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RULE 4A. SUPPLEMENTAL LIQUIDITY DEPOSITS

**[Changes to this Rule, as amended by File No. SR-NSCC-2024-002, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on May 28, 2024, or such later date as may be announced by the SEC for compliance with Exchange Act Rules 15c6-1 and 15c6-2. Upon the implementation of these changes, this legend will automatically be removed from this Rule.]**

\* \* \*

SEC. 2. *Defined Terms.* The following terms shall have the meanings specified below for purposes of this Rule 4(A):

\* \* \*

“Daily Liquidity Need” means, on any Business Day, the ~~amount of liquid resources, as calculated and determined by the Corporation, needed to effect the settlement of its~~ payment obligations of the Corporation as a central counterparty ~~over a three day settlement cycle, as calculated and determined by the Corporation, 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.

\* \* \*

“Options Expiration Activity Period” means the period (i) beginning at the opening of business on the Friday preceding the Saturday that is the monthly expiration date for stock options (or the Business Day before that if such Friday is not a Business Day) and (ii) ending at the close of business on the ~~second Settlement Day~~Settlement Date following such date. If the monthly expiration date for stock options is changed to a Friday, the “Options Expiration Activity Period” shall mean the period (i) beginning at the opening of business on such Friday (or the Business Day before that if such Friday is not a Business Day) and (ii) ending at the close of business on the ~~second Settlement Day~~Settlement Date following such date.

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#### RULE 11. CNS SYSTEM

[Changes to this Rule, as amended by File No. SR-NSCC-2024-002, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on May 28, 2024, or such later date as may be announced by the SEC for compliance with Exchange Act Rules 15c6-1 and 15c6-2. Upon the implementation of these changes, this legend will automatically be removed from this Rule.]

\* \* \*

SEC. 4. On each settlement day the Corporation will issue to each Member reports which will show each CNS position in each security due to settle that day ~~and on the next settlement day~~ and such other information as the Corporation may deem advisable. ~~With respect to obligations due to settle on the next settlement day, the obligation of a Member to receive and pay for CNS Securities and the obligation of a Member to deliver CNS Securities pursuant to the CNS Contracts shall be fixed at the time the applicable report is made available to the Member, although it may not in fact have been received by such Member.~~ With respect to obligations due to settle that day, the obligation of a Member to receive and pay for CNS Securities and the obligation of a Member to deliver CNS Securities shall be fixed at each time a net settling position is determined for that Member in accordance with the CNS processing and information in respect of that new net settling position is made available.

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SEC. 8. After receipt of notice by the Corporation that the issuer of a CNS Security has declared a stock or cash dividend on such security or has authorized a stock-split or a distribution of rights or other property with respect to a CNS Security, the Corporation will issue a Record Date Report which will show each Member’s record

date Long or Short Position in the security at the close of business on the Record Date (herein called "Record Date Position").

\* \* \*

(d) An "as of" trade entered at least ~~two~~one settlement days prior to the payable date in respect of a cash or stock dividend or other distribution not trading with due bills after the record date, provided the original trade date for the trade is before the ex-dividend date for such dividend, will be subject to the same procedures as those set forth above; an "as of" trade entered ~~at least one settlement day~~ prior to or on the Due Bill Redemption Date in respect of other distributions which trade with due bills after the record date will be subject to the same procedures as those set forth above. Any ~~such "as of"~~ trades entered ~~less than two settlement days or one Business Day, as the case may be, prior to the payable date or the Due Bill Redemption Date~~outside these specified timeframes shall not be accorded dividend protection in the CNS System.

\* \* \*

## PROCEDURE II. TRADE COMPARISON AND RECORDING SERVICE

**[Changes to this Procedure, as amended by File No. SR-NSCC-2024-002, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on May 28, 2024, or such later date as may be announced by the SEC for compliance with Exchange Act Rules 15c6-1 and 15c6-2. Upon the implementation of these changes, this legend will automatically be removed from this Procedure.]**

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

#### (i) Recording of Regular-Way Transactions

Self-Regulatory Organizations and Qualified Special Representatives on behalf of Members (as applicable) may submit to the Corporation trade data relating to regular way transactions in securities executed on securities exchanges or OTC marketplaces. Regular-way trade data may be submitted throughout T ("trade date") until the time specified by the Corporation (hereinafter referred to as "Original Trade Input"), and shall include quantity, security identification, identification of the marketplace of execution, contra-broker, trade value and other identifying details as the Corporation may require or permit.

Regular-way trade data as submitted by Self-Regulatory Organizations and Qualified Special Representatives on behalf of Members ("Locked-in Trade Data") is converted, if necessary, and validated. Results of this process are reported by the Corporation to



Members on such reports and in such formats as determined by the Corporation from time to time. Such reports are available to Members on a real-time and/or intra-day basis as determined by the Corporation from time to time.

**Regular Way as-of trades received on Settlement Date prior to the Corporation's designated cutoff time will settle on that date; otherwise, the trade will be assigned a new Settlement Date which will be the next settlement day following the date the trade is recorded by the Corporation.**

(ii) Recording of Cash, ~~Next Day~~ and Seller's Option Transactions

Qualified Special Representatives and Self-Regulatory Organizations on behalf of Members may submit to the Corporation, data relating to cash, ~~next day~~, and seller's option transactions on securities other than securities processed under Procedure VI. Such trade data may be submitted during the timeframes specified by the Corporation from time to time and shall include such trade details as the Corporation may specify (including, if the transaction is a seller's option, the settlement date, which may be no greater than 180 days beyond the trade date). Results of this input are reported by the Corporation to Members on such reports and in such formats as determined by the Corporation from time to time, and if the securities covered by such trades are CNS-eligible, the recorded trades will be entered into the CNS ~~a~~Accounting ~~e~~Operation (unless otherwise provided in these Procedures). Cash trades received after such cutoff time as the Corporation designates will be recorded and reported, but may only be settled directly between the parties. ~~Next day as-of trades received on Settlement Date prior to the Corporation's designated cutoff time will settle on that date; otherwise the trade will be assigned a new settlement date which will be the next settlement day following the date the trade is recorded by the Corporation.~~ Trades that are either (i) designated as Special Trades, (ii) in a security which is not CNS-eligible, or (iii) in a CNS Security that is undergoing a corporate action, or ~~is scheduled to settle between a dividend ex-date and record date~~ where the trade date and Settlement Date (which is a cash trade) are the same date as a dividend ex-date and record date, will be processed on a trade-for-trade basis.

C. Debt Securities

1. Trade Input and Comparison

The Corporation provides the following procedures for trade input and comparison of transactions in ~~r~~Regular ~~w~~Way debt securities, including unit investments trusts, in any par value (excluding fractions and decimals), other than securities submitted through the correspondent clearing service and by regional exchanges/marketplaces or Qualified Securities Depositories:

\* \* \*

~~(e) Trade input and comparison of transactions submitted for T+1~~

~~settlement is handled in the same manner as transactions submitted for regular way settlement.~~

(~~po~~) The Corporation shall accept cash transactions (where trade date is the same date as settlement date) for comparison-only processing. Results of the comparison-only process for these items are reported by the Corporation as specified from time to time. Settlement of the resultant compared trades is the responsibility of the parties to the trades.

\* \* \*

## 2. Resolution of Uncompared Trades in Regular Way Debt Securities

The Corporation provides the following procedures for resolution of uncompared trades in Regular Way Debt Securities:

\* \* \*

(h) Transactions which compare after such cutoff time as the Corporation may designate on the date on which they were scheduled to settle or later are assigned a Settlement Date of the next Business Day following the date the trade is compared. The assignment of a new Settlement Date applies to trades designated for CNS-eligible processing, ~~Balance Order processing~~, and trade-for-trade Special Trades (i.e., trades other than those submitted for comparison-only processing).

\* \* \*

## F. Index Receipts

### 1. Composition and Preliminary Financial Data

Each day, by such time as required by the Corporation from time to time, the Index Receipt Agent shall report to the Corporation (a) the composition of index receipts for creations and redemptions occurring on the next Business Day ("T"), i.e., the shares and their associated quantities;<sup>7.1</sup> (b) the cash value of the portfolio for creates and redeems made solely for cash, and, if applicable;<sup>7.1</sup> (c) the estimated cash amount, representing accrued dividend, cash-in-lieu of securities<sup>1</sup>, if applicable, and balancing amount data (hereinafter referred to as the "Dividend/Balancing Cash Amount");<sup>7.1</sup> and (d) such other financial data as the Corporation may require or permit from time to time.

Each day, by such time as determined by the Corporation from time to time, the Index Receipt Agent may also report to the Corporation the composition of index receipts for purposes other than creations and redemptions.

Each evening, by such time as determined by the Corporation from time to time, the Corporation will make available to Members a report detailing, if applicable, the estimated Dividend/Balancing Cash Amount, other financial data and the composition of the next Business Day's index receipts ("Portfolio Report"). The composition data within the Portfolio Report may be used by the Corporation to process index receipt creations and redemptions on the next Business Day. The Portfolio Report will also include, if available, portfolio holdings of the index receipts.

## 2. Creation/Redemption Input

On each Business Day, the Corporation will perform reasonability checks of transaction data submitted by an Index Receipt Agent to the Corporation. The Corporation will pend any transaction data that exceeds thresholds established by the Corporation. The Corporation will notify the Index Receipt Agent of any transaction data that the Corporation has pended. The Index Receipt Agent must provide confirmation, in the form and within the timeframe required by the Corporation, that such pended transaction data should be accepted by the Corporation. If the Index Receipt Agent fails to provide such confirmation, such pended transaction data will be rejected. The Corporation may, in its sole discretion, adjust thresholds from time to time and the Corporation may consider feedback from its Members or market conditions.

From time to time, the Corporation shall inform Members of the time periods for each cycle (the intraday cycle, the primary cycle, and the supplemental cycle) applicable to creation/redemption input. On T, during any of the cycles, by such time as established by the Corporation from time to time, an Index Receipt Agent may submit to the Corporation on behalf of Members, index receipt creation and redemption instructions and their scheduled settlement date, the final Dividend/Balancing Cash Amount relative to such instructions and a transaction amount representing the Index Receipt Agent's fee for the processing of the index receipt. The Index Receipt Agent may elect ~~a Settlement Date of T+1 or later~~ **same day, Regular Way or extended settlement** for the index receipts and the component securities or cash. **For same-day settling index receipts, the Index Receipt Agent may include an additional cash collateral amount ("Index Receipt Cash Collateral Amount") as may be required by the Index Receipt Agent to process the index receipt, subject to limits established by the Corporation from time to time. The Corporation will announce changes to Index Receipt Cash Collateral Amount limits by Important Notice. The Corporation will report any necessary adjustments to the Index Receipt Cash Collateral Amount based on end of day values ("Collateral Cash Adjustments") for non-guaranteed money settlement on the next business day.** The Index Receipt Agent may submit as-of **or same day settling** index creation and redemption instructions, but only if such as-of data is received by the cut-off time as designated by the Corporation from time to time, with same-

day settling creates and redeems required to be received by such cut-off time on Settlement Date.

Any as-of index or same day settling creation and redemption instructions ~~for same-day settlement~~ received after the cut-off time, designated by the Corporation from time to time, will be rejected. **Any creation and redemption instructions for same-day settling index receipts that exceed the Index Receipt Cash Collateral Amount limitations established by the Corporation from time to time will be rejected.** On T, the Corporation will report to Members on the Index Receipt Detail Report the details of the creations and redemptions submitted, the gross quantity of underlying security components of creation and redemption instructions and the quantity of index receipt shares associated with particular creation and redemption activity. The report will also indicate the final Dividend/Balancing Cash Amount that must be paid or received and the transaction amount that must be paid on Settlement Date.

### 3. Settlement

Index receipts and the underlying component securities which are eligible for CNS or cash, if applicable, will be reported on the next available Consolidated Trade Summary. The applicable Consolidated Trade Summary will also separately indicate the other component securities, or cash component, if applicable, due to settle. Component securities will be netted with all other CNS and Non-CNS securities and entered into the CNS **Accounting Operation and/or** Balance Order Accounting **Operations** for **trade-for-trade** settlement **(as applicable)**.

\* \* \*

### G. Reports and Output

\* \* \*

Reports are produced at such intervals and in such formats as determined by the Corporation showing all compared trade data resulting from T+1 and older adjustments processed by a Self-Regulatory Organization, as well as step out transactions processed that day. Designations for CNS Securities and Balance Order securities are shown in the same manner as on the reports issued as a result of T input. If trades are listed on reports which include totals, the new data is added to or subtracted from such totals, to arrive at new totals. The new totals represent the combined input for T through such cutoff time on T+21 as the Corporation may designate. Trades received after such cutoff time as established on T+21 are not included in the normal settlement cycle. Such trades will be assigned a new settlement date which will be the next settlement day following the date the trade is received by the Corporation.

\* \* \*

## H. Consolidated Trade Summaries

The Corporation produces a Consolidated Trade Summary distributed three times daily for the reporting of CNS, and Balance Order, ~~and trade-for-trade~~ transactions. **On each Settlement Day With respect to Balance Order transactions, each Consolidated Trade Summary includes Receive and Deliver instructions for items designated by the Corporation to settle trade-for-trade that day and the next Settlement Day provided to each Member to settle directly with its counterparties.** To facilitate settlement of ~~such items~~ **Balance Order transactions that are trade-for-trade items**, the Corporation 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. When Members have an equal number of shares bought and sold between counterparties for such Special Trades, NSCC will not issue a receive or deliver obligation and will record any cash difference in the NSCC money settlement system. Where issuing of a net buy or sell instruction would result in ~~an~~ money settlement that is directionally opposite what it would be for a typical money settlement in relation to a securities movement (i.e., a Member receives an instruction to: (i) receive securities with a corresponding receipt of money settlement payment, or (ii) deliver securities with a corresponding delivery of a money payment) or if the associated money settlement is flat in relation to a securities movement (i.e., a Member receives an instruction to receive or deliver securities without a corresponding money settlement amount) then the Corporation may, in lieu of netting, separately aggregate the receive and deliver instructions so that a Member would have only one aggregate buy obligation and one aggregate sell obligation in the given security with the given counterparty.

\* \* \*

## PROCEDURE IV. SPECIAL REPRESENTATIVE SERVICE

**[Changes to this Procedure, as amended by File No. SR-NSCC-2024-002, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on May 28, 2024, or such later date as may be announced by the SEC for compliance with Exchange Act Rules 15c6-1 and 15c6-2. Upon the implementation of these changes, this legend will automatically be removed from this Procedure.]**

\* \* \*

## C. Correspondent Clearing Service

\* \* \*

~~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 the Corporation are then entered into the Balance Order Accounting Operation or CNS Accounting Operation (pursuant to Procedure V and VII) which, when processed through the Balance Order Accounting Operation or CNS Accounting Operation, effectively net the Special Representative out of the original trade.~~

\* \* \*

## PROCEDURE V. BALANCE ORDER ACCOUNTING OPERATION

[Changes to this Procedure, as amended by File No. SR-NSCC-2024-002, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on May 28, 2024, or such later date as may be announced by the SEC for compliance with Exchange Act Rules 15c6-1 and 15c6-2. Upon the implementation of these changes, this legend will automatically be removed from this Procedure.]

### A. Introduction

The Balance Order Accounting Operation includes transactions in all Balance Order Securities and transactions which have been identified as Special Trades including Special Trades in CNS Securities. The Balance Order Accounting Operation processes trades compared or recorded under the provisions of ~~Section~~Procedure II, trades recorded under the provisions of ~~Section~~Procedure III and transactions entered by Special Representatives under the provisions of ~~Section~~Procedure IV. The Balance Order Accounting Operation produces Balance Orders which identify the receive and deliver obligations of Members. Balance Orders may be issued on a trade-for-trade basis or a net basis. The Corporation will make available to participants information detailing their receive or deliver obligations, on a trade-for-trade or net basis, as applicable, in respect of Balance Order transactions.

### B. Trade-for-Trade Balance Orders

All transactions either: (i) identified as Special Trades, (ii) compared or otherwise entered to the Balance Order Accounting Operation on ~~SD-1, after the cutoff time established by the Corporation, or thereafter~~Settlement Date, (iii) in securities which are subject to a voluntary corporate reorganization which have a trade date on or before the expiration of the voluntary corporate reorganization and which are compared or received on SD-1, after the cutoff time established by the Corporation, and at least one day prior to the end of the protect period, or (iv) identified as cash, ~~next day~~ or seller's option transactions in Balance Order Securities, or in securities which are subject to any corporate action, whether mandatory or voluntary, are processed on a trade-for-trade basis. Receive and Deliver Orders are produced instructing Members to

deliver or receive a quantity of securities to or from the contra-Member involved in that transaction.

\* \* \*

E. Consolidated Trade Summaries

~~On each settlement day, three separate~~**Any Balance Order transactions that are generated by the Corporation will be included on** Consolidated Trade Summaries ~~each indicating Balance Order transactions settling that day and the next settlement day will be~~ made available to participants.

\* \* \*

PROCEDURE VI. FOREIGN SECURITY ACCOUNTING OPERATION

**[Changes to this Procedure, as amended by File No. SR-NSCC-2024-002, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on May 28, 2024, or such later date as may be announced by the SEC for compliance with Exchange Act Rules 15c6-1 and 15c6-2. Upon the implementation of these changes, this legend will automatically be removed from this Procedure.]**

A. Introduction

The Foreign Security Accounting Operation includes transactions in all Foreign Securities. The Foreign Security Accounting Operation processes trades compared and recorded under the provisions of Procedure II and transactions entered by Special Representatives under the provisions of Procedure IV. The Foreign Security Accounting Operation produces Foreign Security receive and deliver instructions which identify the receive and deliver obligations of Members. **Foreign Securities may be netted on a Member-to-Member basis or processed on a trade-for-trade basis.**

B. Trade-for-Trade Foreign Security Receive and Deliver Instructions

Transactions ~~identified~~**submitted** as Special Trades ~~and all transactions compared otherwise~~ entered to the Foreign Security Accounting Operations ~~on SD-1 or thereafter~~ are processed on a trade-for-trade basis. Receive and deliver instructions are produced instructing Members to deliver or receive a quantity of securities to or from the contra-Member involved in that transaction.

C. Netted Member-to-Member Receive and Deliver Instructions

Transactions in Foreign Securities **that are designated by the Corporation to be Special Trades will** may net only on a Member-to-Member basis. Netted Member-to-

Member receive and deliver instructions are reported on the next available Consolidated Trade Summary representing the netted positions of each Member with respect to its transactions with another Member, and the related Foreign Security Clearance Cash Adjustment, in each Foreign Security issue in which it had activity. Both the settlement of the underlying transaction and payment of the Foreign Security Clearance Cash Adjustment will not be guaranteed by the Corporation. In the event a Member fails to make payment of the Foreign Security Clearance Cash Adjustment with the Corporation, the Corporation will reverse all Foreign Security Clearance Cash Adjustment debits and credits with respect to that Member, and the netted Member-to-Member Foreign Securities receive and deliver instructions issued that day with respect to that Member will be null and void.

\* \* \*

#### PROCEDURE VII. CNS ACCOUNTING OPERATION

**[Changes to this Procedure, as amended by File No. SR-NSCC-2024-002, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on May 28, 2024, or such later date as may be announced by the SEC for compliance with Exchange Act Rules 15c6-1 and 15c6-2. Upon the implementation of these changes, this legend will automatically be removed from this Procedure.]**

\* \* \*

#### B. Consolidated Trade Summary

All compared and recorded transactions in CNS Securities (excluding Special Trades) are processed through the CNS Accounting Operation. This includes transactions compared under the provisions of ~~Section Procedure~~ II, recorded under the provisions of ~~Section Procedure~~ III, or entered by Special Representatives under ~~Section Procedure~~ IV. Purchases and sales due for settlement on a given day are summarized on the Consolidated Trade Summaries that are issued three times daily and contain, with respect to CNS Securities:

- (i) those trades compared or recorded through the Corporation's cutoff time on that day which are due to settle on the following settlement day ~~(i.e., if the report is issued late Monday evening, it will show trades due to settle on Wednesday)~~, and
- (ii) **those trades compared or recorded through the Corporation's cutoff time with respect to trades due to settle on the same settlement day (i.e., Tuesday), T+1 and older as of trades and next day settling trades not previously reported on the prior Consolidated Trade Summary, in each case in CUSIP order, reported as**



~~broad buys and sells by marketplace or source, netted by issue, quantity and money.~~

~~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.~~

Note: any T+~~2~~1 or older as-of trades compared or recorded after such cutoff time on settlement day will settle on the next settlement day and appear on that night's Consolidated Trade Summary. Notwithstanding the previous sentence, with respect to Index Receipts, if Index Receipts for same-day settlement are received by the Corporation after the applicable cut-off time, such Index Receipts will not be assigned a new settlement date and will be rejected.

\* \* \*

#### D. Controlling Deliveries to CNS

As noted in subsection C, the delivery of securities from a Member's Designated Depository account to satisfy short positions is an automatic process and requires no action on the part of the Member. Securities are removed from the Member's Designated Depository account to the extent that a sufficient quantity is on deposit.

In order for a Member to avoid segregation violations and to meet other delivery needs, a procedure is provided to control this automatic system. The first phase of this procedure provides the Member with its ~~projected~~ positions due for settlement the following day. The second phase involves the submission of instructions by the Member indicating which short positions it does not wish to settle. Members are required to provide standing instructions to exempt from delivery any transactions compared or received on ~~SD-1 or thereafter~~Settlement Date, ~~including cash or next day transactions~~, which are processed for ~~next day or~~ same day settlement and which create or increase a short position. This exemption shall hereinafter be referred to as the "OneSame Day Settling Exemption".

#### ~~1. Projection Report~~

~~Twice a day, a Projection Report is distributed to each Member. This report shows, as of the time of its preparation, the Member's long position or short position for each security, settling trades for the next day, plus any miscellaneous activity and stock dividends payable on the next day; and may include long and short positions due to settle that day. Throughout the day the Corporation will make available updates to this information, in such formats as it may determine.~~

~~Long and short positions reflect the Member's status in each security issue as of the time the Projection Report is prepared. These positions may change due to same day settling trades and/or miscellaneous activity, and as the settlement cycle on the day the report is issued continues. If a Member's long and short positions change during the day, the projection position will also change. The Member must, therefore, update these positions based on same day settling trade and settlement activity which occurs during the course of the day.~~

## 21. Exemptions

Except as described below, each Member has the ability to elect to deliver all or part of any short position. It controls this process by Exemptions. By indicating a particular quantity as an Exemption, the Member directs the Corporation not to settle certain short positions or portions thereof. Exemptions govern short positions in the CNS Stock Record and not Designated Depository positions. All short positions or positions thereof for which no Exemption is indicated are settled automatically to the extent that the Member has made such securities available in the Member's Designated Depository account or they become available in its Designated Depository account through other depository activity. Notwithstanding the above, a Member may not exempt delivery of any securities available in an agency account established at a Qualified Securities Depository for the processing of transactions through the ID Net Service.

### (a) Types of Exemption

The CNS system provides for two levels of Exemption. By proper use of ~~the Projection Report~~ **position reporting made available by the Corporation** and Exemptions, Members can utilize current inventory as well as securities received from other sources on settlement day in order to satisfy delivery requirements.

- (i) Level 1 Exemption - By submitting a Level 1 Exemption, the Member indicates that the portion of the short position exempted should not be automatically settled against its current Designated Depository position or against any securities which may be received into its Designated Depository account as a result of other depository activity.
- (ii) Level 2 Exemption - The submission of a Level 2 Exemption is an instruction by the Member that the portion of the short position exempted should not be automatically settled against its current depository position. Such a position may be satisfied, however, by certain types of "qualified" activity in its Designated Depository account.

### (b) Qualified Activity

There are **fourthree** types of qualified activity which allow short positions carrying Level 2 Exemptions to be settled:

- (i) Coded Deposits - The Member deposits securities into its Designated Depository account in the normal manner, but by using a special deposit ticket which indicates that these securities are available for settling Level 2 Exemption quantities.
- (ii) Coded Collateral Loan Releases - A Member may release securities from its Designated Depository collateral loan account and wish those securities to be used in settling a Level 2 Exemption quantity. In this case, the Member uses a special Collateral Loan Release form which authorizes such use.
- (iii) Receipts from Banks - All securities received against payment from banks are eligible to settle Level 2 Exemption quantities. Settlement of such items is automatic and no special instruction by the Member is required.

(c) Methods of Submitting Exemptions

Exemptions may be submitted by using such form or automated means as are acceptable to the Corporation from time to time. Exemptions must either indicate the quantity to be exempted, or indicate all, and designate that quantity as Level 1 or Level 2. A Member may submit daily Exemption instructions to the Corporation. If a Member has no Exemptions on a given day, instructions may be submitted indicating no Exemptions for either Level 1 or Level 2.

A Member must submit standing Exemption instructions to the Corporation. Standing Exemption instructions will govern all of the Member's short positions for any day on which ~~(i)~~ specific daily Exemption instructions are (i) not submitted to the Corporation, (ii) ~~are~~ not received by the Corporation, or (iii) ~~are~~ unable to be processed by the Corporation.

Exemptions may be submitted by Members through the facilities of service bureaus and other agencies provided that the service bureau or agency has been authorized by the Corporation to act on behalf of its Member.

Exemptions must be submitted for each CNS Sub-Account maintained by the Member (see subsection I of this Section).

(d) Exemption Override

With respect to ~~one day and~~ same day settling transactions, Members may select a standing Exemption override to permit all such short positions to be delivered. Additionally, during the daytime cycle, a Member may override the

**OneSame** Day Settling Exemption as well as other Exemptions entered by the Member the previous evening. To do so, the Member should prepare a Delivery Order (DO) and submit it to its Designated Depository in the normal manner. If the Designated Depository is DTC, the receiving Member must be designated as 888.

The securities designated to be delivered on the DO are first applied to any quantity covered by a Level 1 Exemption and the **OneSame** Day Settling Exemption. Any remaining quantity (or if no Level 1 Exemption existed, the entire delivery) is applied to any quantity covered by a Level 2 Exemption. If there is still a remaining quantity, that quantity is not processed.

\* \* \*

G. CNS Dividend Accounting

\* \* \*

2. Dividend Activity Report

Cash and stock dividends which are to be applied to a Member's account are shown on the Dividend Activity Report usually produced on the day before payable date. Dividends are calculated according to record date closing positions updated for As-Of Trades. As-Of Trades submitted up to ~~two days~~ **one Settlement Date** prior to payable date and which have an original trade date before ex-dividend date are automatically included in the payment calculation.

\* \* \*

3. Due Bill Accounting

\* \* \*

In the case of stock splits, the Current Market Price is adjusted by the rate of the split ~~during the one day prior to~~ **on** the Due Bill Redemption Date. This process synchronizes the application of additional quantities to the Member's account with the valuation of that security at the new price.

\* \* \*

H. Miscellaneous CNS Activity

\* \* \*

4. Corporate Reorganizations

\* \* \*

All CNS Securities subject to a reorganization (hereinafter referred to as “the subject security”) may be included in the CNS Reorganization Processing System other than: (i) securities subject to a conversion event; (ii) securities subject to a reorganization where baby bonds are issued; (iii) securities made ineligible for processing at a Qualified Securities Depository during a corporate reorganization; and (iv) in circumstances when the Corporation determines that operational difficulties prevent the processing of the security in the CNS Reorganization Processing System, in which case the security shall be removed from the CNS System, and Receive and Deliver Instructions for such security are issued as explained in paragraph 1 of this subsection H, above. For example, in general, the Corporation will not process a reorganization event where the protect period for such event is greater than **twoone** Business Days.

\* \* \*

Processing within the CNS Reorganization Processing System is handled in the following manner:

\* \* \*

(b) Voluntary Reorganizations

The Rules below assume the processing of subject securities with a protect period of **twoone** days. The processing of subject securities with a protect period of one day or less shall be in accordance with the time frames set forth in the table below.

**After Night Cycle – E+1 On E**

**After On E, prior to the night cycle oncommencing for E+1, by such times and in such manner as established by the Corporation from time to time, (i) the Corporation shall advise Members with short positions (including short positions due to settle up to and including the last day of the protect period) in a subject security of their potential liability based on their short positions as of that time in such subject security and (ii) a Member with a long position in a subject security (including long positions due to settle up to and including the last day of the protect period) at the close of business on such day who seeks to have the Corporation provide the protection described below for such long position, must instruct the Corporation to move such long positions into a CNS Reorganization Sub-Account. Instructions by a Member to move a position to a CNS Reorganization Sub-Account constitute a formal request by the Member for the Corporation to provide such protection for the position moved.**

**Note:** Any same day settling trade in such subject security that is received for processing after the night cycle **of completes on** E+1 will be designated a

Special Trade and will be cleared and settled on a Member-to-Member basis between the parties directly.

### On E+1

~~On E+1, by such time and in such manner as established by the Corporation, a Member with a long position in a subject security (including long positions due to settle up to and including the last day of the protect period) at the close of business on such day who seeks to have the Corporation provide the protection described below for such long position, must instruct the Corporation to move such long positions into a CNS Reorganization Sub-Account. Instructions by a Member to move a position to a CNS Reorganization Sub-Account constitute a formal request by the Member for the Corporation to provide such protection for the position moved.~~

### On E+21 (CNS End Date/Protect Period-Expiration Date)

The regular CNS allocation process takes place through the day cycle on the last day of the protect period. A long position in a subject security for which an instruction has been received by the Corporation to establish a position in the CNS Reorganization Sub-Account, as described above, has the highest priority for CNS allocation, as provided for in Section E, 4(a) of this Procedure VII.

By such time and in such manner as established by the Corporation from time to time, the Corporation shall inform Members who have given the Corporation instructions to move a long position in a subject security into a CNS Reorganization Sub-Account of the expected move of that position to a CNS Reorganization Sub-Account. On E+21, until such time as established by the Corporation from time to time, Members may add, adjust, or delete long positions which will be moved to the CNS Reorganization Sub-Account in whole or in part by submitting an instruction to the Corporation in such form and until such time on E+21 as established by the Corporation from time to time.

Members are prohibited from moving positions in subject securities between the CNS General Account and that Member's Fully-Paid-For Subaccount.

### After Day Cycle – E+21

At the time established by the Corporation after the day cycle completes on E+21, long positions for which proper instructions have been received are moved to a CNS Reorganization Sub-Account. Simultaneously, the Corporation shall move into the CNS Reorganization Sub-Account a corresponding number of short positions in the subject security held by those Members with the oldest such short positions. If more than one short position in the subject security is of the same age, the Corporation may utilize a random allocation procedure to

select short positions to be moved into the CNS Reorganization Sub-Account. On E+21, when the long and short positions in the subject security are moved into the CNS Reorganization Sub-Account, the Corporation provides Members with long positions in the subject security notification of their final protection, and provides Members with short positions in the subject security notification of their final liability.

The Corporation may, following a request by a Member and an approval of that request by the Member with the corresponding long or short position in a subject security, move their respective positions from a CNS Reorganization Sub-Account back to the CNS General Account.

The Corporation may establish a minimum of two separate CNS Reorganization Sub-Accounts for each security subject to multiple voluntary offers; provided, however, that if applicable, and provided it has the operational capabilities to do so, the Corporation may establish additional CNS Reorganization Sub-Accounts in order to process affected securities.

#### On and Following E+32

Short positions in the CNS Reorganization Sub-Account are marked from the Current Market Price to the voluntary offer price on E+32 and on each subsequent day; funds received as a result of such mark payments are retained by the Corporation until the conclusion of the voluntary offer. The Corporation freezes the positions in the CNS Reorganization Sub-Account; corresponding long and short positions in the CNS Reorganization Sub-Account only will be moved out of the CNS Reorganization Sub-Account (i) upon the request of both the Members with a long and short positions, as described above, (ii) upon conclusion of the voluntary offer, (iii) when the voluntary offer is canceled, or (iv) when the expiration date of the voluntary offer is extended. In such cases, positions in the CNS Reorganization Sub-Account are automatically returned to the Members' CNS General Account, and the mark to the voluntary offer price returned to Members with short positions.

The table below sets forth the time frames for the processing of subject securities subject to a voluntary reorganization with a protect period of one day and voluntary reorganizations with no protect period.

	Date long position member must instruct NSCC to move position to Reorg. Sub-Acct. (Standard Date)	Date short Member notified of potential Liability	Date long Member notified of potential Protection	Date long Members are prohibited from moving positions in subject securities between CNS General Account and Fully-Paid-For Subaccount	Last date long members may submit Delete instructions	Last date long Members may submit Protect Add or Adjust Instructions (protect add or adjust submitted on CNS end date)*	Date long positions moved to Reorg. Sub-Account	Date long Member notified of Final Protection and short Member notified of Final Liability	Short position marked to voluntary offer price
<b>1 Day Protect</b>	E	E	E+1	E+1	E+1	E+1	E+1	E+1	E+2 or thereafter
<b>No Protect</b>	E-1	E-1	E	E	E	E	E	E	E+1 or thereafter

\* "CNS end date" is either the protect expiration date of the offer or, when there is no protect, it is the expiration date of the offer.

#### On Conclusion of Voluntary Offers

Upon conclusion of the voluntary offer, at a time determined by the Corporation, the Corporation shall make journal entries to unwind positions in the CNS Reorganization Sub-Account and established positions representing the terms of the voluntary offer in the CNS General Account by:

- (i) crediting a long Member's CNS General Account for the securities distributed under the terms of the voluntary offer and/or crediting a long Member's settlement account for the cash or securities distributed under the terms of the voluntary offer;
- (ii) debiting a short Member's CNS General Account for the securities distributed under the terms of the voluntary offer and/or debiting a short Member's settlement account for the cash or securities distributed under the terms of the voluntary offer; and
- (iii) crediting the settlement account of short Members with the mark to the voluntary offer price being retained by the Corporation.

In the event that not all positions in a subject security are accepted pursuant to the terms of a voluntary offer, entries crediting and debiting the positions and/or cash under the terms of the voluntary offer are made on a pro rata basis, based on the pro rata acceptance ratio of the voluntary offer as reported to the Corporation by a Qualified Securities Depository. All entries with respect to the voluntary offer appear on the Member's CNS Miscellaneous Activity Report and are identified as resulting from a voluntary offer. Fractional



shares resulting from a pro rata acceptance are credited to Members' settlement accounts and charged in cash, and are valued using the voluntary offer price.

The Corporation shall provide protection to the long Member for a position in the CNS Reorganization Sub-Account upon completion of the voluntary offer only to the extent of the monetary difference between the Current Market Price and the voluntary offer price, and only to the extent of the pro rata acceptance ratio of the voluntary offer as discussed above.

\* \* \*

#### PROCEDURE XIII. DEFINITIONS

**[Changes to this Procedure, as amended by File No. SR-NSCC-2024-002, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on May 28, 2024, or such later date as may be announced by the SEC for compliance with Exchange Act Rules 15c6-1 and 15c6-2. Upon the implementation of these changes, this legend will automatically be removed from this Procedure.]**

\* \* \*

T - T denotes the day on which the trade occurred. T+1 is ~~the next Business Day, and so on. T+2 is~~ normally the Settlement Date.

\* \* \*

#### PROCEDURE XVIII. ACATS SETTLEMENT ACCOUNTING OPERATION

**[Changes to this Procedure, as amended by File No. SR-NSCC-2024-002, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on May 28, 2024, or such later date as may be announced by the SEC for compliance with Exchange Act Rules 15c6-1 and 15c6-2. Upon the implementation of these changes, this legend will automatically be removed from this Procedure.]**

\* \* \*

#### Exemptions and Exemption Overrides

\* \* \*

The securities designated to be delivered on the DO are applied to any quantity covered by a Level 1 Exemption and the **OneSame** Day Settling Exemption. If there is still a remaining quantity, that quantity is not processed.

\* \* \*

## ADDENDUM K

**[Changes to this Addendum, as amended by File No. SR-NSCC-2024-002, are available at [www.dtcc.com/legal/sec-rule-filings](http://www.dtcc.com/legal/sec-rule-filings). These changes have been approved by the SEC but have not yet been implemented. These changes will be implemented on May 28, 2024, or such later date as may be announced by the SEC for compliance with Exchange Act Rules 15c6-1 and 15c6-2. Upon the implementation of these changes, this legend will automatically be removed from this Addendum.]**

## THE CORPORATION'S GUARANTY

The Corporation guarantees the completion of compared and locked-in CNS and balance order transactions from a fixed point in the clearance and settlement process.<sup>1</sup> CNS transactions are guaranteed as of the point they have: (i) for bilateral submissions by Members, been validated and compared by the Corporation pursuant to these Rules and Procedures, and (ii) for locked-in submissions, been validated by the Corporation pursuant to these Rules and Procedures. Balance order transactions are guaranteed as of the point they have: (i) for bilateral submissions by Members, been validated and compared by the Corporation pursuant to these Rules and Procedures, and (ii) for locked-in submissions, been validated by the Corporation pursuant to these Rules and Procedures, and, in either case, through the close of business on ~~T+2~~ **their contractual Settlement Date**. If the contra party to a ~~same day or one day~~ settling trade is a member of an interfacing clearing corporation, such guaranty shall not be applicable unless an agreement to guarantee such trade exists between the Corporation and the interfacing clearing corporation. The Corporation has also adopted a policy of guaranteeing the completion of when-issued and when-distributed trades, as of the point they have: (i) for bilateral submissions by Members, been validated and compared by the Corporation pursuant to these Rules and Procedures, and (ii) for locked-in submissions, been validated by the Corporation pursuant to these Rules and Procedures and will consider all when-issued and when-distributed trades of Members as if they were CNS transactions for surveillance purposes regardless of the accounting operation in which they ultimately settle.

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