

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 46	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2016 - * 007	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"/>	
			Rule	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(6)
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934	
Section 806(e)(1) * <input type="checkbox"/>		Section 806(e)(2) * <input type="checkbox"/>		Section 3C(b)(2) * <input type="checkbox"/>
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
Description				
Provide a brief description of the action (limit 250 characters, required when Initial is checked *).				
To facilitate the anticipated industry wide move to shorten settlement cycle from three business days after the trade date to two business days after the trade date.				
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 *	Rosa	Last Name *	Chang	
Title *	Executive Director and Associate General Counsel			
E-mail *	rchang1@dtcc.com			
Telephone *	(212) 855-4985	Fax	<input type="text"/>	
Signature				
Pursuant to the requirements of the Securities Exchange Act of 1934,				
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.				
(Title *)				
Date	11/07/2016	Managing Director and Deputy General Counsel		
By	Nikki Poulos	<input type="text"/>		
(Name *)				
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.				
Persona Not Validated - 1459960765550,				

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

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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 *

Add Remove View

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 Advance 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, security-based swap submission, or advance notice 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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Exhibit Sent As Paper Document

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 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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 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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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) The proposed rule change of National Securities Clearing Corporation (“NSCC”) is attached hereto as Exhibit 5. The proposed rule change would amend NSCC’s Rules & Procedures (the “Rules”)¹ in order to ensure that the Rules are consistent with the anticipated industry-wide move to a shorter standard settlement cycle for certain securities² from the third business day after the trade date (“T+3”) to the second business day after the trade date (“T+2”). The proposed rule change would not become effective until NSCC has submitted a subsequent proposed rule change under Rule 19b-4.³ Therefore, NSCC would not implement this version of the Rules until an effective date is established by the subsequent proposed rule change.⁴

(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 at a meeting duly called and held on June 14, 2016.

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

(a) Purpose

(i) Background

The standard settlement cycle has not changed since 1993, when the Commission adopted the current version of Rule 15c6-1(a) under the Securities Exchange Act of 1934, as amended (the “Act”), which (subject to certain exceptions) prohibits any broker-dealer from

¹ Capitalized terms not defined herein are defined in the Rules, available at http://www.dtcc.com/~media/Files/Downloads/legal/rules/nsc_rules.pdf.

² The financial services industry, in coordination with its regulators, is planning to shorten the standard settlement cycle for equities, corporate and municipal bonds, unit investment trusts and financial instruments comprised of the foregoing products traded on the secondary market from T+3 to T+2 (the “Shortened Settlement Cycle”). See Securities Exchange Act Release No. 78962 (September 28, 2016), 81 FR 69240 (October 5, 2016) (S7-22-16) (Amendment to Securities Transaction Settlement Cycle).

³ 17 CFR 240.19b-4.

⁴ NSCC will post a version of the relevant sections of the Rules reflecting the changes as they would appear upon the effectiveness of the subsequent proposed rule change mentioned above and will include a note on the cover page of the Rules to advise Members of these changes.

entering into a contract for the purchase or sale of a security that provides for payment and delivery later than three business days after the trade date, unless otherwise expressly agreed to by the parties at the time of the transaction.⁵

In an effort to reduce counterparty risk, decrease clearing capital requirements, reduce liquidity demands and harmonize the settlement cycle globally, the financial services industry has been working on shortening the standard settlement cycle from T+3 to T+2. In connection therewith, the Commission has proposed a rule change to shorten the standard settlement cycle from T+3 to T+2.⁶

A number of provisions in the Rules currently define “regular way” settlement as occurring on T+3 and, as such, would need to be amended in connection with shortening the standard settlement cycle to T+2. Further, certain timeframes or cutoff times in the Rules key off the current settlement date of T+3, 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. Therefore, to facilitate the anticipated industry-wide move to the Shortened Settlement Cycle, NSCC proposes to make certain amendments to the Rules.

(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 a two-day settlement cycle.⁷ While the core functions of NSCC will continue to operate in the same way in the Shortened Settlement Cycle, NSCC has determined that the move to T+2 would necessitate certain amendments to the Rules because currently the Rules are designed to accommodate a T+3 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 addition, NSCC is proposing to make a number of technical changes and corrections to the Rules.

A. *Rules Tied to the Standard Settlement Cycle*

Certain provisions in the Rules are tied to the standard settlement cycle because they reference timeframes and/or cutoff times that are based on the timing of settlement. 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 they would need to be changed in order to accommodate the Shortened Settlement Cycle. As an example, the Rules contain a number of provisions that refer to “three days” or “T+3” as the timeframe and Settlement Date of the standard settlement cycle. These provisions would need to be updated to reflect “two days” or “T+2” to be in conformance with the Shortened Settlement Cycle. Similarly, a number of provisions in the Rules refer to timeframes and Settlement Dates

⁵ 17 CFR 240.15c6-1.

⁶ Supra note 2.

⁷ Id.

that are intended to be shorter or earlier, as applicable, than the timeframe and/or Settlement Date of the standard settlement cycle. These provisions would also need to be changed in order 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 non-standard settlement cycle are changed, these cutoff times would also need to be revised accordingly.

NSCC is proposing changes to the following Rules because they contain provisions that are tied to the standard settlement cycle and would need to be changed to facilitate the move to Shortened Settlement Cycle:

1. Rule 4A (Supplemental Liquidity Deposits)

In Section 2, delete references to the “third Settlement Day” and replace them with references to the “second Settlement Day” in the definition of “Options Expiration Activity Period.”

2. Procedure II (Trade Comparison and Recording Service)

In Section C.1.(p), with regards to trade input and comparison of debt securities transactions submitted for non-standard settlement, delete the reference to “T+2 and T+1 settlement” and replace it with “T+1 settlement.”

In Section D.2.(A)(1)(b), with regards to municipal and corporate debt securities, delete the reference to “two days” and replace it with “one day.”

In Section F.2, with regards to the Settlement Date for the Index Receipts, delete the reference to “T+1, T+2 or T+3” and replace it with “T+1 or T+2.”

In Section G, with regards to the eligibility of trades to be settled in the normal settlement cycle and the cutoff time for updating the totals reported for such trades, delete references to “T+3” and replace them with “T+2.”

3. Procedure III (Trade Recording Service (Interface with Qualified Clearing Agencies))

In Section B, with regards to the Settlement Date for the exercise or assignment of options at OCC, delete the reference to “three days” and replace it with “two days.”

4. Procedure V (Balance Order Accounting Operation)

In Section C, (i) with regards to the timing for the netting of trades in Balance Order Securities, delete references to “T and T+1” and replace them with “T” and (ii) with regards to the listing of the Clearance Cash Adjustment amount for all Balance Orders on the Consolidated Trade Summary, delete the reference to the Consolidated Trade Summary being available on T+2.

5. Procedure VII (CNS Accounting Operation)

In Section B, (i) with regards to the timing of the comparison or recording of trades in CNS Securities for inclusion on the Consolidated Trade Summary, delete the words “T+1 up to” and (ii) with regards to the timing of as-of trades in CNS Securities that are reported on the Consolidated Trade Summary, delete references to “T+2” and “T+3” and replace them with “T+1” and “T+2,” respectively.

In Section G.3, with regards to the time period for determining the rate of the split for adjustments to Current Market Price in the case of stock splits, delete the reference to “last two days” and replace it with “one day.”

In Section H.4(b), (i) with regards to timing related to securities subject to voluntary reorganizations, delete references to protect periods of “two days”, “three days” and “greater than three days” and replace them with “one day”, “two days” and “greater than two days”, respectively and delete references to “E+2”, “E+3” and “E+4” and replace them with “E+1”, “E+2” and “E+3,” respectively, (ii) in the table listing the time frames for the processing of securities subject to voluntary reorganizations with a protect period, delete the reference to “two days or less” and replace it with “one day or less” as well as delete the entries for the 2 day protect period and (iii) with regards to the timing for the recording of ID Net Service eligible transactions on the Miscellaneous Activity Report, delete the words “on the night of T+2.”

In Section K, with regards to the timing for advising a Member about its potential liability with respect to a short position or a short Settling Trade position in a security to which an exercise privilege attaches, delete the reference to “T+2” and replace it with “T+1.”

6. Procedure XIII (Definitions)

In the definition for “T,” delete the reference to “T+3” and replace it with “T+2.”

7. Procedure XVI (ID Net Service)

In Procedure XVI, with regards to the timing for processing by NSCC of ID Net Service transactions, delete references to “the evening of T+2” and “the night of T+2” and replace them with “the evening prior to Settlement Date” and “the night prior to Settlement Date,” respectively.

8. Addendum A (Fee Structure)

In Section E.1, with regards to the fee for Index Creation and Redemption instructions submitted for regular way settlement, delete the explanatory parenthetical “(T+3)” and replace it with “(T+2).”

9. Addendum K (Interpretation of the Board of Directors Application of Clearing Fund)

In Section I.2, with regards to the endpoint of NSCC's guaranty for balance order transactions, delete the reference to "T+3" and replace it with "T+2."

B. Rules Covering Processes Affected by a Shortened Settlement Cycle

NSCC conducted an in-depth review of its internal operational processes to identify those processes that would require changes in order to accommodate the Shortened Settlement Cycle. In connection with that review, NSCC has identified the following provisions in the Rules that would need to be updated in connection with such process changes:

1. Procedure V (Balance Order Accounting Operation)

In Section B, with regards to trades that are to be processed on a trade-for-trade basis, clarify that such processing occurs for trades that are compared or otherwise entered into the Balance Order Accounting Operation on SD-1, "after the cutoff time established by the Corporation." This is because under the Shortened Settlement Cycle, trades that are compared or otherwise entered into the Balance Order Accounting Operation on SD-1 would be processed as multilaterally netted balance orders when reported on the Consolidated Trade Summary issued at approximately 12:00 P.M. ET on SD-1. Trades compared and reported thereafter would continue to be processed on a trade-for-trade basis.

Similarly, in Section B, with regards to trades that are to be processed on a trade-for-trade basis, clarify that such process occurs for securities that 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 not "after SD-1." This shift in cutoff time is because "as of" regular way trades compared and received prior to 11:30 A.M. on SD-1 would be processed as multilaterally netted balance orders when reported on the Consolidated Trade Summary issued at approximately 12:00 P.M. ET on SD-1. "As of" regular way trades compared and reported thereafter would continue to be processed on a trade-for-trade basis.

2. Procedure VII (CNS Accounting Operation)

In Section D.1, with regards to the timing of the distribution of Projection Reports, delete the reference to "[e]ach morning" and replace it with "[t]wice a day" because currently NSCC distributes the Projection Report only once a day; however, after the implementation of the Shortened Settlement Cycle, NSCC would be distributing the Projection Reports twice a day to enable Members to view their updated positions on a more timely basis.

C. Other Technical Changes and Corrections

During its review of the Rules in connection with the Shortened Settlement Cycle, NSCC has identified the following technical changes and/or corrections that it proposes to make to the Rules in order to ensure that the Rules remain consistent and accurate.

1. In Rule 3, Section 1(c), add a footnote that identifies the term “CUSIP” as a registered trademark of the American Bankers Association.
2. In Procedure II, Section G, correct a grammatical error.
3. In Procedure VII, Sections B and D, correct grammatical errors.
4. In Procedure X, Section B, delete the reference to the timeframe for the delivery of Liability Notices to the contra party by Members holding the receive balance orders for warrants, rights, convertible securities or certain other securities so the Members would remain solely subject to the schedules of the relevant exchanges.
5. In Procedure XIII, delete the incorrect reference to “Settlement Day” and replace it with “Settlement Date” in the definition for “T” to clarify that T+2 would normally be the Settlement Date after the implementation of the Shortened Settlement Cycle.
6. In Procedure XVI, correct a grammatical error.

Implementation Timeframe

The proposed rule change would not become effective until NSCC has submitted a subsequent proposed rule change under Rule 19b-4.⁸ Therefore, NSCC would not implement this version of the Rules until an effective date is established by the subsequent proposed rule change. NSCC anticipates that the implementation date would correspond with the industry’s transition to a T+2 settlement cycle, which is currently anticipated to be in September 2017.

(b) Statutory Basis

NSCC believes the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC.

In particular, Section 17A(b)(3)(F) of the Act requires, in part, that NSCC’s Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and to protect investors and the public interest.⁹ NSCC believes that the proposed changes are consistent with the requirements of Section 17A(b)(3)(F) because by changing the timeframes and/or cutoff times that are based on timing of settlement to accommodate the Shortened

⁸ 17 CFR 240.19b-4.

⁹ 15 U.S.C. 78q-1(b)(3)(F).

Settlement Cycle, the proposal would ensure that securities transactions would be promptly and accurately cleared and settled within the industry standard settlement cycle. Similarly, the related process changes proposed are designed to update NSCC's operations in order to facilitate the move to the Shortened Settlement Cycle and, by extension, facilitate the prompt and accurate clearance and settlement of securities transactions submitted to NSCC for clearing and settlement. Therefore, NSCC believes the proposed rule change promotes the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.¹⁰

In addition, the proposed changes to (i) update the Rules to remove references to the settlement timeframes or Settlement Dates that would be rendered incorrect by the Shortened Settlement Cycle and (ii) make other technical changes and corrections as described in detail above would provide additional clarity to Members of their rights and obligations under the Rules and ensure technical accuracy of the Rules. Therefore, NSCC believes these proposed changes would protect investors and the public interest, consistent with the requirements of Section 17A(b)(3)(F) of the Act.¹¹

For the reasons noted above, NSCC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC.

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

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.¹² 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+3 to T+2 settlement 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 are appropriate in that they have been specifically tailored to be in conformance with the requirements of the Shortened Settlement Cycle. 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.

¹⁰ Id.

¹¹ Id.

¹² 15 U.S.C. 78q-1(b)(3)(I).

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

NSCC has not received any written comments relating to this proposal. NSCC will notify the Commission of any written comments received.

6. Extension of Time Period for Commission Action

NSCC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act for Commission action.

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 Notices Filed Pursuant to Section 806(e) of the Payment, Clearing, and Settlement Supervision Act

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-2016-007)

[DATE]

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

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4,² notice is hereby given that on November 7, 2016, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. 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 NSCC’s Rules & Procedures (“Rules”)³ in order to ensure that the Rules are consistent with the anticipated industry-wide move to a shorter standard settlement cycle for certain securities⁴ from the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Capitalized terms not defined herein are defined in the Rules, available at http://dtcc.com/~//media/Files/Downloads/legal/rules/nsccl_rules.pdf.

⁴ The financial services industry, in coordination with its regulators, is planning to shorten the standard settlement cycle for equities, corporate and municipal bonds, unit investment trusts and financial instruments comprised of the foregoing products traded on the secondary market from T+3 to T+2 (the “Shortened Settlement Cycle”). See Securities Exchange Act Release No. 78962 (September

third business day after the trade date (“T+3”) to the second business day after the trade date (“T+2”), as described below. The proposed rule change would not become effective until NSCC has submitted a subsequent proposed rule change under Rule 19b-4.⁵

Therefore, NSCC would not implement this version of the Rules until an effective date is established by the subsequent proposed rule change.⁶

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

(i) Background

The standard settlement cycle has not changed since 1993, when the Commission adopted the current version of Rule 15c6-1(a) under the Securities Exchange Act of 1934,

28, 2016), 81 FR 69240 (October 5, 2016) (S7-22-16) (Amendment to Securities Transaction Settlement Cycle).

⁵ 17 CFR 240.19b-4.

⁶ NSCC will post a version of the relevant sections of the Rules reflecting the changes as they would appear upon the effectiveness of the subsequent proposed rule change mentioned above and will include a note on the cover page of the Rules to advise Members of these changes.

as amended (the “Act”), which (subject to certain exceptions) prohibits any broker-dealer from entering into a contract for the purchase or sale of a security that provides for payment and delivery later than three business days after the trade date, unless otherwise expressly agreed to by the parties at the time of the transaction.⁷

In an effort to reduce counterparty risk, decrease clearing capital requirements, reduce liquidity demands and harmonize the settlement cycle globally, the financial services industry has been working on shortening the standard settlement cycle from T+3 to T+2. In connection therewith, the Commission has proposed a rule change to shorten the standard settlement cycle from T+3 to T+2.⁸

A number of provisions in the Rules currently define “regular way” settlement as occurring on T+3 and, as such, would need to be amended in connection with shortening the standard settlement cycle to T+2. Further, certain timeframes or cutoff times in the Rules key off the current settlement date of T+3, 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. Therefore, to facilitate the anticipated industry-wide move to the Shortened Settlement Cycle, NSCC proposes to make certain amendments to the Rules.

⁷ 17 CFR 240.15c6-1.

⁸ Supra note 4.

(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 a two-day settlement cycle.⁹ While the core functions of NSCC will continue to operate in the same way in the Shortened Settlement Cycle, NSCC has determined that the move to T+2 would necessitate certain amendments to the Rules because currently the Rules are designed to accommodate a T+3 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 addition, NSCC is proposing to make a number of technical changes and corrections to the Rules.

A. *Rules Tied to the Standard Settlement Cycle*

Certain provisions in the Rules are tied to the standard settlement cycle because they reference timeframes and/or cutoff times that are based on the timing of settlement. 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 they would need to be changed in order to accommodate the Shortened Settlement Cycle. As an example, the Rules contain a number of provisions that refer to “three days” or “T+3” as the timeframe and Settlement Date of the standard settlement cycle. These provisions would need to be updated to reflect “two days” or “T+2” to be in conformance with the Shortened Settlement Cycle. Similarly, a

⁹ Id.

number of provisions in the Rules refer to timeframes and Settlement Dates that are intended to be shorter or earlier, as applicable, than the timeframe and/or Settlement Date of the standard settlement cycle. These provisions would also need to be changed in order 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 non-standard settlement cycle are changed, these cutoff times would also need to be revised accordingly.

NSCC is proposing changes to the following Rules because they contain provisions that are tied to the standard settlement cycle and would need to be changed to facilitate the move to Shortened Settlement Cycle:

1. Rule 4A (Supplemental Liquidity Deposits)

In Section 2, delete references to the “third Settlement Day” and replace them with references to the “second Settlement Day” in the definition of “Options Expiration Activity Period.”

2. Procedure II (Trade Comparison and Recording Service)

In Section C.1.(p), with regards to trade input and comparison of debt securities transactions submitted for non-standard settlement, delete the reference to “T+2 and T+1 settlement” and replace it with “T+1 settlement.”

In Section D.2.(A)(1)(b), with regards to municipal and corporate debt securities, delete the reference to “two days” and replace it with “one day.”

In Section F.2, with regards to the Settlement Date for the Index Receipts, delete the reference to “T+1, T+2 or T+3” and replace it with “T+1 or T+2.”

In Section G, with regards to the eligibility of trades to be settled in the normal settlement cycle and the cutoff time for updating the totals reported for such trades, delete references to “T+3” and replace them with “T+2.”

3. Procedure III (Trade Recording Service (Interface with Qualified Clearing Agencies))

In Section B, with regards to the Settlement Date for the exercise or assignment of options at OCC, delete the reference to “three days” and replace it with “two days.”

4. Procedure V (Balance Order Accounting Operation)

In Section C, (i) with regards to the timing for the netting of trades in Balance Order Securities, delete references to “T and T+1” and replace them with “T” and (ii) with regards to the listing of the Clearance Cash Adjustment amount for all Balance Orders on the Consolidated Trade Summary, delete the reference to the Consolidated Trade Summary being available on T+2.

5. Procedure VII (CNS Accounting Operation)

In Section B, (i) with regards to the timing of the comparison or recording of trades in CNS Securities for inclusion on the Consolidated Trade Summary, delete the words “T+1 up to” and (ii) with regards to the timing of as-of trades in CNS Securities that are reported on the Consolidated Trade Summary, delete references to “T+2” and “T+3” and replace them with “T+1” and “T+2,” respectively.

In Section G.3, with regards to the time period for determining the rate of the split for adjustments to Current Market Price in the case of stock splits, delete the reference to “last two days” and replace it with “one day.”

In Section H.4(b), (i) with regards to timing related to securities subject to voluntary reorganizations, delete references to protect periods of “two days”, “three days” and “greater than three days” and replace them with “one day”, “two days” and “greater than two days”, respectively and delete references to “E+2”, “E+3” and “E+4” and replace them with “E+1”, “E+2” and “E+3,” respectively, (ii) in the table listing the time frames for the processing of securities subject to voluntary reorganizations with a protect period, delete the reference to “two days or less” and replace it with “one day or less” as well as delete the entries for the 2 day protect period and (iii) with regards to the timing for the recording of ID Net Service eligible transactions on the Miscellaneous Activity Report, delete the words “on the night of T+2.”

In Section K, with regards to the timing for advising a Member about its potential liability with respect to a short position or a short Settling Trade position in a security to which an exercise privilege attaches, delete the reference to “T+2” and replace it with “T+1.”

6. Procedure XIII (Definitions)

In the definition for “T,” delete the reference to “T+3” and replace it with “T+2.”

7. Procedure XVI (ID Net Service)

In Procedure XVI, with regards to the timing for processing by NSCC of ID Net Service transactions, delete references to “the evening of T+2” and “the night of T+2” and replace them with “the evening prior to Settlement Date” and “the night prior to Settlement Date,” respectively.

8. Addendum A (Fee Structure)

In Section E.1, with regards to the fee for Index Creation and Redemption instructions submitted for regular way settlement, delete the explanatory parenthetical “(T+3)” and replace it with “(T+2).”

9. Addendum K (Interpretation of the Board of Directors Application of Clearing Fund)

In Section I.2, with regards to the endpoint of NSCC’s guaranty for balance order transactions, delete the reference to “T+3” and replace it with “T+2.”

B. Rules Covering Processes Affected by a Shortened Settlement Cycle

NSCC conducted an in-depth review of its internal operational processes to identify those processes that would require changes in order to accommodate the Shortened Settlement Cycle. In connection with that review, NSCC has identified the following provisions in the Rules that would need to be updated in connection with such process changes:

1. Procedure V (Balance Order Accounting Operation)

In Section B, with regards to trades that are to be processed on a trade-for-trade basis, clarify that such processing occurs for trades that are compared or otherwise entered into the Balance Order Accounting Operation on SD-1, “after the cutoff time established by the Corporation.” This is because under the Shortened Settlement Cycle, trades that are compared or otherwise entered into the Balance Order Accounting Operation on SD-1 would be processed as multilaterally netted balance orders when reported on the Consolidated Trade Summary issued at approximately 12:00 P.M. ET on

SD-1. Trades compared and reported thereafter would continue to be processed on a trade-for-trade basis.

Similarly, in Section B, with regards to trades that are to be processed on a trade-for-trade basis, clarify that such process occurs for securities that 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 not “after SD-1.” This shift in cutoff time is because “as of” regular way trades compared and received prior to 11:30 A.M. on SD-1 would be processed as multilaterally netted balance orders when reported on the Consolidated Trade Summary issued at approximately 12:00 P.M. ET on SD-1. “As of” regular way trades compared and reported thereafter would continue to be processed on a trade-for-trade basis.

2. Procedure VII (CNS Accounting Operation)

In Section D.1, with regards to the timing of the distribution of Projection Reports, delete the reference to “[e]ach morning” and replace it with “[t]wice a day” because currently NSCC distributes the Projection Report only once a day; however, after the implementation of the Shortened Settlement Cycle, NSCC would be distributing the Projection Reports twice a day to enable Members to view their updated positions on a more timely basis.

C. Other Technical Changes and Corrections

During its review of the Rules in connection with the Shortened Settlement Cycle, NSCC has identified the following technical changes and/or corrections that it proposes to make to the Rules in order to ensure that the Rules remain consistent and accurate.

1. In Rule 3, Section 1(c), add a footnote that identifies the term “CUSIP” as a registered trademark of the American Bankers Association.
2. In Procedure II, Section G, correct a grammatical error.
3. In Procedure VII, Sections B and D, correct grammatical errors.
4. In Procedure X, Section B, delete the reference to the timeframe for the delivery of Liability Notices to the contra party by Members holding the receive balance orders for warrants, rights, convertible securities or certain other securities so the Members would remain solely subject to the schedules of the relevant exchanges.
5. In Procedure XIII, delete the incorrect reference to “Settlement Day” and replace it with “Settlement Date” in the definition for “T” to clarify that T+2 would normally be the Settlement Date after the implementation of the Shortened Settlement Cycle.
6. In Procedure XVI, correct a grammatical error.

Implementation Timeframe

The proposed rule change would not become effective until NSCC has submitted a subsequent proposed rule change under Rule 19b-4.¹⁰ Therefore, NSCC would not implement this version of the Rules until an effective date is established by the subsequent proposed rule change. NSCC anticipates that the implementation date would correspond with the industry’s transition to a T+2 settlement cycle, which is currently anticipated to be in September 2017.

¹⁰ 17 CFR 240.19b-4.

2. Statutory Basis

NSCC believes the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC.

In particular, Section 17A(b)(3)(F) of the Act requires, in part, that NSCC's Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and to protect investors and the public interest.¹¹ NSCC believes that the proposed changes are consistent with the requirements of Section 17A(b)(3)(F) because by changing the timeframes and/or cutoff times that are based on timing of settlement to accommodate the Shortened Settlement Cycle, the proposal would ensure that securities transactions would be promptly and accurately cleared and settled within the industry standard settlement cycle. Similarly, the related process changes proposed are designed to update NSCC's operations in order to facilitate the move to the Shortened Settlement Cycle and, by extension, facilitate the prompt and accurate clearance and settlement of securities transactions submitted to NSCC for clearing and settlement. Therefore, NSCC believes the proposed rule change promotes the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.¹²

In addition, the proposed changes to (i) update the Rules to remove references to the settlement timeframes or Settlement Dates that would be rendered incorrect by the Shortened Settlement Cycle and (ii) make other technical changes and corrections as described in detail above would provide additional clarity to Members of their rights and

¹¹ 15 U.S.C. 78q-1(b)(3)(F).

¹² Id.

obligations under the Rules and ensure technical accuracy of the Rules. Therefore, NSCC believes these proposed changes would protect investors and the public interest, consistent with the requirements of Section 17A(b)(3)(F) of the Act.¹³

For the reasons noted above, NSCC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC.

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

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.¹⁴ 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+3 to T+2 settlement 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 are appropriate in that they have been specifically tailored to be in conformance with the requirements of the Shortened Settlement Cycle. Therefore, NSCC does not believe that the proposed rule changes

¹³ Id.

¹⁴ 15 U.S.C. 78q-1(b)(3)(I).

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 any written comments relating to this proposal. NSCC will notify the Commission of any written 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 (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NSCC-2016-007 on the subject line.

Paper Comments:

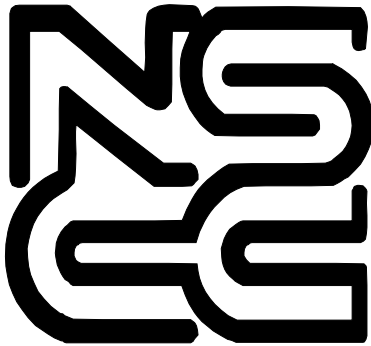
- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-NSCC-2016-007. 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 (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of NSCC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSCC-2016-007 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.¹⁵

Secretary

¹⁵ 17 CFR 200.30-3(a)(12).



NATIONAL
SECURITIES
CLEARING
CORPORATION

RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

Underlined and boldface text indicates new language

~~Strikethrough and boldface~~ text indicates deleted language

[Bracketed, underlined, boldface and blue] text indicates proposed rule changes in connection with a separate proposal that have not yet been approved

Important Note: In anticipation of the shortening of the standard settlement cycle, the SEC has approved in advance certain changes to this Rules & Procedures (“T2 Changes”). However, the T2 Changes will not become effective until the SEC approves a subsequent rule filing to be submitted by NSCC that establishes an effective date for the T2 Changes in coordination with other industry participants. Sections of the Rules & Procedures reflecting the T2 Changes are available on DTCC’s website.

RULE 3. LISTS TO BE MAINTAINED

SEC. 1.

(c) The Corporation shall maintain a list of funds and other pooled investment entities which may be the subject of orders processed through the Corporation's Mutual Fund Services (hereinafter referred to as "Fund/Serv Eligible Funds") and may from time to time add funds and other pooled investment entities to such list or remove Fund/Serv Eligible Funds therefrom. Unless the Corporation shall otherwise determine, a Fund/Serv Eligible Fund must be assigned a CUSIP¹ number, and may only be: (i) an investment company regulated under the Investment Company Act of 1940, as amended; (ii) a fund or other pooled investment entity that is subject to regulation under applicable federal and state banking and/or insurance law; or (iii) a fund or other pooled investment entity subject to regulation under other applicable law which meets criteria established by the Corporation from time to time.

¹ CUSIP is a registered trademark of the American Bankers Association.

Rule 4(A). SUPPLEMENTAL LIQUIDITY DEPOSITS

SEC. 2. *Defined Terms.* The following terms shall have the meanings specified:

“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 ~~third~~second Settlement Day 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 ~~third~~second Settlement Day following such date.

PROCEDURE II. TRADE COMPARISON AND RECORDING SERVICE

C. Debt Securities

1. Trade Input and Comparison

(p) Trade input and comparison of transactions submitted for ~~T+2 and~~ T+1 settlement is handled in the same manner as set forth above with respect to transactions submitted for regular way settlement.

D. When-Issued and When-Distributed Securities

2. Debt

(A) If the Corporation has information that a municipal or corporate debt security is coming to market, the following provisions shall apply:

(1)(a) Municipal and corporate securities transactions that are submitted at least one day prior to the initial Settlement Date for the issue will be processed in accordance with this subsection 2(A) if they specify (i) a final settlement amount and a settlement date that is the initial Settlement Date for the issue, (ii) a final settlement amount, a settlement date and a specified number of days after the Initial Settlement Date for the issue, (iii) a dollar price or a dollar price and a specified number of days after the initial Settlement Date for the issue, or (iv) for municipal securities, a price-to-yield and concession (if any) or a price-to-yield concession and a specified number of days after the Initial Settlement Date for the issue.

(b) Municipal and corporate securities transactions that are submitted twoone days prior to the initial Settlement Date for the issue or later, and contain a settlement date which is after the initial Settlement Date for the issue, but do not meet the above criteria will be treated as regular way transactions. All other transactions that are not submitted as specified above will be rejected.

F. Index Receipts

2. Creation/Redemption Input

On T, 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 T+2 ~~or T+3~~ for the Index Receipts and the component securities or cash. The Index Receipt Agent may submit as-of index creation and redemption instructions, but only if such as-of data is submitted by the cut-off time as designated by the Corporation from time to time, with next day settling creates and redeems required to be submitted by such cut-off time on T.

G. Reports and Output

Reports and output may be made available to Members on a real-time and/or on an intra-day basis as determined by the Corporation from time to time.

Reports identify each security as being eligible (a CNS Security) or non-eligible (a Balance Order Security) for processing through the CNS system. Depending upon the format of the report, separate totals may be provided for each of these categories. If designated as a Special Trade, such designation will be reflected upon the report/output.

With regard to Locked-in Trade Data reported on T by Self-Regulatory Organizations and Qualified Special Representatives, the Corporation may report back such data to Members on separate reports. If data received from a Self-Regulatory Organization is the result of a trade executed on a system which provides trading anonymity (i.e., the contra side is not revealed at the time of the trade) the report may list, in lieu of the actual contra side for the trade, an acronym designated by such Self-Regulatory Organization. In this case, the contra side shall, for all purposes, be deemed to be one of the entities which the Self-Regulatory Organization includes as an eligible entity which may participate in the anonymous trading system.²

² In the event that the Corporation ceases to act for a Member which is the unidentified contra side of any such trade and the Corporation determines that such trade is to be exited from trade processing, the Self Regulatory Organization shall have the responsibility to identify to Members the trades included in reports produced by the Corporation which are with the affected Member.

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+32 as the Corporation may designate. Trades received after such cutoff time as established on T+32 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.

PROCEDURE III. TRADE RECORDING SERVICE (INTERFACE WITH QUALIFIED CLEARING AGENCIES)

B. Settlement of Option Exercises and Assignments (“E&A”)

Through an arrangement with Options Clearing Corporation (OCC), Members which have entered into agreements with the OCC may settle security and money obligations arising out of the exercise or assignment of an option through the facilities of the Corporation. The recording and reporting of such transactions is similar to those set forth in Procedure II. A Member which wishes to utilize this Service must advise the Corporation and execute an agreement with OCC in the form acceptable to OCC.

E&A data is received by the Corporation from OCC on a locked-in basis and is reported to Members on such reports and in such formats as determined by the Corporation from time to time.

Exercised calls and assigned puts appear as purchases. Exercised puts and assigned calls appear as sells.

The date of the exercise at OCC is recorded as the trade date for the exercise or assignment. The Settlement Date for such transactions is ~~three~~ two days later. If the exercise occurs on a Saturday during exercise weekend, the preceding OCC business day is the trade date.

The Corporation may require a special mark-to-market payment from Members as a result of such transactions being entered on its records.

Exercises and assignment transactions are routed to the Balance Order Accounting Operation or the CNS Accounting Operation.

If for any reason the Corporation ceases to act for a Member or ceases to clear a particular security, the Corporation may refuse to accept Interface Clearing input for such Member or such security.

PROCEDURE V. BALANCE ORDER ACCOUNTING OPERATION

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, (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 **onafter 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.

C. Net Balance Orders

Trades in Balance Order Securities (except for Special Trades) which are compared on T-~~and T+1~~, and transactions entered through the Trade Recording or Special Representative procedures on T-~~and T+1~~, are netted so that the Member becomes a net purchaser or net seller in each security issue in which it had activity. An allotting procedure matches these net quantities and produces Net Balance Orders. Net Balance Orders are instructions to a Member to deliver or receive a quantity of securities to or from another Member. Net Balance Orders have the same status under the Rules and these Procedures as Balance Orders.

In order to net trades executed at different prices, a uniform Settlement Price is used. The uniform Settlement Price shall be established as the Settlement Price that is the current market price of the applicable Balance Order Security.

A mechanism is required to adjust the differences between Contract Money (i.e., the price at which the trade was executed) and Settlement Money. To avoid calculating an adjustment for each Balance Order, the Corporation computes a single adjustment amount for each Member. This amount is called the Clearance Cash Adjustment. The Clearance Cash Adjustment amount for all Balance Orders, both bond and equity, plus the net amount of both figures will appear on the Consolidated Trade Summary **which is available on T+2.**

Since Special Trades produce Balance Orders at the Contract Price, Settlement Money is the same as Contract Money and requires no Clearance Cash Adjustment.

PROCEDURE VII. CNS ACCOUNTING OPERATION

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 II, recorded under the provisions of Section III, or entered by Special Representatives under Section IV. Purchases and sales due for settlement on a given day are summarized on the Consolidated Trade Summary.

The Consolidated Trade Summary (or "CTS") is issued in the evening of each settlement day and contains, with respect to CNS Securities:

(i) those trades compared or recorded through ~~T+1 up to~~ 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) with respect to trades due to settle on the same settlement day (i.e., Tuesday), T+21 and older as-of trades and next day settling trades not previously reported on the prior day's CTS or on any Supplemental CTS, in each case in CUSIP order, reported as broad buys and sells by marketplace or source, netted by issue, quantity and money.

Supplemental Consolidated Trade Summaries are also issued on each settlement day, and report supplemental activity compared or recorded after the evening cutoff time for CTS report processing (including cash trades), up until the Corporation's daytime cutoff time which are due to settle on that same day.

Note: any T+32 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.

Net quantities purchased or sold in each security issue are entered into the CNS Stock Record together with their associated contract monies at the beginning of the Settlement Date processing cycle. Subsequent obligations (reflecting supplemental activity), together with their associated contract monies, are entered into the CNS stock record thereafter during such processing cycle until such cutoff time as the Corporation may determine.

The total page of the Consolidated Trade Summary shows totals for all equity and debt transactions and is subdivided by marketplace of execution or source of trade input.

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. Additionally, transactions compared or received on SD-1 or thereafter, including cash or next day transactions, which are processed for next day or same day settlement and which create or increase a short position will automatically be exempted by the Corporation from the delivery. This exemption shall hereinafter be referred to as the "One Day Settling Exemption".

1. Projection Report

~~Each morning~~ **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.

G. CNS Dividend Accounting

3. Due Bill Accounting

The credit or charge to Members for interest, stock splits, rights distributions or any other distribution which involves trading of a CNS Security with Due Bills, is processed in a different manner. The Designated Depositories automatically account for security receipts and deliveries during a Due Bill period through an

interim accounting system. The Corporation, therefore, credits or debits a Member's CNS account for the appropriate securities or money based only on the Member's Closing Position on Due Bill Redemption Date in the case of stock splits and distributions, and the day prior to payable date in the case of interest.

The quantity or money due to or from each Member appears on a separate Dividend Activity Report which is issued on the morning after Due Bill Redemption Date. Share quantities are added to each Member's long or short position prior to the night delivery cycle for the day's settlement. Cash-in-lieu of fractions, as well as interest amounts, are included in that day's money settlement.

In the case of stock splits, the Current Market Price is adjusted by the rate of the split during the ~~last two~~one days prior to 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.

If a particular distribution is not eligible for processing through the interim accounting systems of the Designated Depository, the Corporation records the record date position of the security carrying the Due Bill as well as all receipt and delivery activity during the Due Bill period. Based on the net of these amounts, the Corporation computes the amount to be debited or credited to each Member and records such quantities on the Dividend Activity Report.

4. Optional Dividends

Dividends which may be paid in the form of securities or cash at the option of the holder are processed as follows:

Record date positions are initially recorded in the CNS Dividend Accounting system using the option specified by the issuer as the "default option" (the "default option" is the form in which payment will be made by the issuer if instructions to the contrary are not received).

Each Member with a long position as of the close of business on record date may change the form of payment for all or part of its position by submitting an Optional Dividend Instruction. The Optional Dividend Instruction must be received by the Corporation no later than the cutoff time and date specified by the Corporation. If an Optional Dividend Instruction is not received from a Member with a long position on record date, that Member will be credited on the basis of the default option.

The Corporation will charge Members with short positions on record date according to the options selected by members with long positions on record date using a random method of allocation. Members with short positions will be advised of the form by which they will be charged.

H. Miscellaneous CNS Activity

4. Corporate Reorganizations

(b) Voluntary Reorganizations

The Rules below assume the processing of subject securities with a protect period of **threetwo** days. Except where otherwise indicated in this subsection (b), the processing of subject securities with a protect period of **threetwo** days is the same as for subject securities with a protect period of greater than **threetwo** days. The processing of subject securities with a protect period of **twoone** days or less shall be in accordance with the time frames set forth in the table below.

On E+**21**, by such time and in such manner as established by the Corporation from time to time, a Member with a long position (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 in the subject security who seeks to have the Corporation provide the protection described below for such long position, must instruct the Corporation to move its 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.

After the night cycle on E+**21**, by such time and in such manner as established by the Corporation from time to time, the Corporation will inform 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 advising of their potential liability based on their short positions as of that time in such subject security.

Note: Any same day settling trade in such subject security that is received for processing after the night cycle of E+**21** will be designated a Special Trade and will be cleared and settled on a Member-to-Member basis between the parties directly.

On E+**32**, a Member who has given the Corporation instructions to move a long position into a CNS Reorganization Sub-Account will be informed of its potential moves to a CNS Reorganization Sub-Account. On E+**32** Members may add, adjust, or delete long positions which will be moved to the Sub-Account in whole or in part by submitting an instruction to the Corporation in such form and until such time on E+**32** as established by the Corporation from time to time.

At the time established by the Corporation after the day cycle on E+**32** those long positions for which proper instructions have been received are moved to a CNS Reorganization Sub-Account. Simultaneously, the Corporation moves into the Sub-Account a corresponding number of short positions representing those short Members with the oldest positions. If more than one short position is of the same age, positions

to be moved are selected on a random basis. As a result of this pairing of long and short positions, a Member with a short position could have only a partial allocation of its position to the CNS Reorganization Sub-Account and thus could have short positions both in the Sub-Account and its CNS General Account. On E+~~32~~32, when the long and short positions are moved into the CNS Reorganization Sub-Account the Corporation will provide Members with long positions their final protection, and will provide Members with short positions their final liability.

Movement of positions for securities that are subject to a voluntary reorganization are not permitted between non reorganization sub-accounts either on the “protect” expiration date, or, when there is no “protect” for that voluntary reorganization, on the expiration date of the voluntary reorganization.

In such form and by such time as established by the Corporation a Member with a long position in a subject security may request the Corporation to move the Member's long position from a CNS Reorganization Sub-Account back to the CNS General Account. In that event, the Corporation also shall move a corresponding short position or positions from the CNS Reorganization Sub-Account to the CNS General Account; positions moved are selected on a random basis.

The Corporation establishes a minimum of two separate CNS Reorganization Sub-Accounts for each security subject to multiple tender offers; provided, however, that if applicable, and provided it has the operational capabilities to do so, the Corporation may establish additional Reorganization Sub-Accounts in order to process affected securities. If there are more tender offers for a security than available CNS Reorganization Sub-Accounts, all positions in the subject security, except for positions that have already been moved to CNS Reorganization Sub-Accounts, are removed from the CNS System, and Receive and Deliver Instructions for the security are issued as explained in paragraph H.1 above. If, after a security has been removed from the CNS System, a Member with a long position in a CNS Reorganization Sub-Account submits a Delete instruction instructing the Corporation to move the position back to the CNS General Account, the Corporation shall issue Receive and Deliver instructions for the security, as described in paragraph H.1 above.

Short positions in the CNS Reorganization Sub-Account are marked from the Current Market Price to the tender offer price on E+~~42~~43 and on each subsequent day; funds received as a result of such mark payments are retained by the Corporation until the conclusion of the tender offer. The Corporation freezes the positions in the Sub-Account; corresponding long and short positions in the Sub-Account only will be moved out of the Sub-Account (i) through the CNS allocation process, as described below, (ii) upon the request of a Member with a long position, as described above, or (iii) upon conclusion of the tender offer. Positions in the CNS Reorganization Sub-Account automatically are returned to the CNS General Account, and the mark to the tender offer price returned to Members with short positions, when a tender offer is canceled.

The regular CNS allocation process takes place through the day cycle on the last day of the protect period or the expiration of the tender offer, whichever is later. Because the

CNS Reorganization Sub-Account always will have the highest priority for allocation, allocations to the Sub-Account from Members covering short positions in both the CNS General Account and CNS Reorganization Sub-Account occur. As a result, each day the CNS Reorganization Sub-Account is balanced by moving excess short positions from the CNS Reorganization Sub-Account to the CNS Account; positions moved are selected on a random basis. In the event that delivery of the subject security is made by the Member with the short position outside the facilities of the Corporation, and the Member does not want its CNS account debited for the securities and/or cash under the terms of the tender offer, both the Members with the long and short positions must, in such form and by such time as established by the Corporation, instruct the Corporation to exit the quantity of shares which has been so delivered from the CNS Reorganization Sub-Accounts of the Members. If the Members do not so instruct the Corporation, the Members' Reorganization Sub-Accounts will not reflect such delivery and the Corporation shall process the credits and debits set forth below based on the position in the Members' CNS Reorganization Sub-Accounts as if the delivery had not occurred. Any adjustments to reflect the delivery must be made between the Members and not through the facilities of the Corporation.

The table below sets forth the time frames for the processing of subject securities with a protect period of **two** one **days** or less.

	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	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 tender offer price
2 -Day Protect	E+1	E+1	E+2	E+2	E+2	E+2	E+2	E+3 or thereafter
1 Day Protect	E	E	E+1	E+1	E+1	E+1	E+1	E+2 or thereafter
No Protect	E-1	E-1	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.

6. ID Net Service

Pursuant to Rule 65 and Procedure XVI, the Corporation permits ID Net Subscribers to enter into transactions eligible for the ID Net Service. All such transactions will be recorded on the Miscellaneous Activity Report ~~on the night of T+2~~. All removals of such transactions from the ID Net Service occurring in either day or evening cycle will also be recorded on the Miscellaneous Activity Report.

K. Instruments with Exercise Privileges

A Member with a short position or a short Settling Trade position in a security to which an exercise privilege attaches will be advised of its potential liability based on its short position or short Settling Trade position on its CNS Projection Report starting on T+21.

PROCEDURE X. EXECUTION OF BUY-INS

B. Balance Order System

If the balance order is for warrants, rights, convertible securities or other securities which have been called for redemption or are due to expire or on which a call or expiration date is impending or which is subject to a tender or exchange offer or other event which will expire, and the last day on which the securities must be delivered or surrendered (the "expiration date") is the Settlement Date for the balance order or any day after the Settlement Date, the Member holding the receive balance order may deliver a notice to the contra party ~~by the time specified by the Corporation on the business day preceding the expiration date~~ (a "Liability Notice"). If a Liability Notice is so delivered to the contra party, and the contra party fails to deliver the securities on expiration date, the contra party shall be liable for any damages which may accrue thereby. All claims for such damage shall be made promptly.

For the purposes of the preceding paragraph, the term "expiration date" shall be defined as the latest time and date on which securities must be delivered or surrendered, up to and including the last day of the protect period, if any.

PROCEDURE XIII. DEFINITIONS

T - T denotes the day on which the trade occurred. T+1 is the next business day, and so on. T+32 is normally the Settlement DayDate.

PROCEDURE XVI. ID NET SERVICE

The ID Net Service utilizes the settlement and delivery services operated by a Qualified Securities Depository for input and affirmation purposes related to transactions qualifying for the ID Net Service as set forth in Rule 65. Certain transactions which are between an ID Net Subscriber and a participant of the Qualified Securities Depository are affirmed through: (i) a Registered Clearing Agency, (ii) other entities which have obtained an exemption from such registration from the Commission, or (iii) Qualified Vendors as defined in the rules of the New York Stock Exchange, the National Association of Securities Dealers, or other self-regulatory organizations, as applicable, (an "Affirming Agency") in accordance with the applicable procedures of the Affirming Agency and then confirmed by such Affirming Agency as eligible for processing in the ID Net Service. If the transaction is affirmed and eligible for processing in the ID Net Service, such Affirming Agency then forwards the appropriate delivery instructions to the Qualified Securities Depository, which facilitates the movement of the transaction to an account at the Qualified Securities Depository maintained by the Corporation as agent on behalf of the ID Net Subscriber (the "ID Netting Subscriber Deliver Account"). The transaction is then entered into the CNS Accounting Operation on the evening of ~~T+2~~ **T+2 prior to Settlement Date** by the Corporation on behalf of the ID Net Subscriber. On the night ~~of T+2~~ **prior to Settlement Date**, the ID Net Subscriber's CNS position, if any, will be updated for the quantity and value of the transaction versus creating an open obligation in the ID Netting Subscriber Deliver Account. For transactions in which the ID Net Subscriber is delivering securities to a participant at the Qualified Securities Depository, the ID Net Subscriber's position in the CNS Accounting Operation, if any, will be updated for the quantity and value of the transaction versus creating an open obligation in an agency account established for this purpose at the Qualified Securities Depository by the Corporation on behalf of the ID Net Subscriber (the "ID Netting Subscriber Receive Account"). Once the securities are credited to this account, the securities will be delivered to the appropriate participant account at the Qualified Securities Depository.

ADDENDUM A

NATIONAL SECURITIES CLEARING CORPORATION

FEE STRUCTURE

E. Index Receipts

1. Index Creation and Redemption Units – each side of each Index Creation and Redemption instruction submitted for regular way (T+**32**) settlement – -\$30 per side.
2. Index Creation and Redemption Units – each side of each Index Creation and Redemption instruction submitted for shortened settlement – \$50 per side.

ADDENDUM K

INTERPRETATION OF THE BOARD OF DIRECTORS APPLICATION OF CLEARING FUND

I. APPLICATION OF THE CLEARING FUND TO LOSSES SUSTAINED BY A SYSTEM

2. The Corporation has in practice assumed responsibility for completion of transactions in each of the following services, and has deemed each of these services to be a System, even though the Corporation has not previously made a formal designation of each such service as a System within the definition of Section 1 of Rule 4:

The Corporation guarantees the completion of compared and locked-in CNS and balance orders transactions from a fixed point in the clearance and settlement process.^[1] 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. later of: (i) midnight of T+1, and (ii) midnight of the day they are reported as compared or as of midnight on the day they appear on reports/output for locked-in trades. With respect to bB balance order transactions~~[such transactions]~~ are guaranteed as of the later of: (i) midnight of T+1, and (ii) midnight of the day they are reported to Members as compared/recorded on contracts and, in either case, 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] through the close of business on T+~~3~~2. ~~[The Corporation guarantees same day and one day settling trades as of the completion of trade comparison or trade recording processing and with respect to balance order transactions, the Corporation guarantees same day and one day settling trades as of the completion of trade comparison or trade recording through T+3; provided, however, that: i) for transactions relating to one day index receipt creates and redeems, including their underlying components, and unless otherwise removed from processing pursuant to Procedure II. F. 2, such transactions will be~~

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[The trade guarantee of obligations arising out of the exercise or assignment of options that are settled at the Corporation is addressed in a separate arrangement between NSCC and Options Clearing Corporation, as referred to in Procedure III of the Rules, and is not addressed in these Rules.]

~~guaranteed after such time on Settlement Date as the Corporation determines to complete processing of such items in the day cycle of the CNS Accounting Operation, and (ii) if~~ if the contra party to a same day or one day settling trade is a member of an interfacing clearing corporation, such guarantee 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 ~~later of: (i) midnight of T+1, and (ii) midnight of the day the trades are reported to Members as compared/recorded on contracts 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.
