

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-83654; File No. SR-NSCC-2018-003)

July 17, 2018

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of and Immediate Effectiveness of a Proposed Rule Change to Clarify and Enhance Rules Related to the CNS Reorganization Processing System and NSCC's Authority to Reveal the Identity of Counterparties In Certain Circumstances

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 9, 2018, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. NSCC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(4) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consists of modifications to the Rules and Procedures of NSCC ("Rules")<sup>5</sup> in order to (1) clarify, correct, and enhance the description of the procedures by which NSCC processes transactions in securities that are eligible for its

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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> 15 U.S.C. 78s(b)(3)(A).

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

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

Continuous Net Settlement (“CNS”) system (“CNS Securities”)<sup>6</sup> and are subject to a corporate reorganization event through the CNS Reorganization Processing System; and (2) describe NSCC’s authority to identify to Members their counterparties for their positions in a subject security as of the critical date of an applicable payment or event, as described in greater detail below.

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

NSCC is proposing to make certain revisions to Procedure VII, Section H of the Rules, which describes, among other matters, NSCC’s CNS Reorganization Processing System.

First, the proposed changes would clarify, correct, and enhance the description of the CNS Reorganization Processing System by (1) revising the description of the scope of corporate reorganization events that may be processed through the CNS Reorganization Processing System; (2) revising the description of the processing of

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<sup>6</sup> CNS and its operation are described in Rule 11 and Procedure VII of the Rules. Id.

voluntary reorganizations through the CNS Reorganization Processing System; and (3) making technical revisions to Section H of Procedure VII of the Rules, including correcting the use of defined terms and typographical and other drafting errors. NSCC believes these proposed changes would improve the clarity and transparency of these procedures.

Second, the proposed changes would add a new subsection to Procedure VII, Section H of the Rules to describe that NSCC may (1) at its discretion, apply asset servicing events<sup>7</sup> to transactions in CNS Securities; (2) determine that such asset servicing events be processed outside its facilities; and (3) assist its Members in processing certain asset servicing events by identifying to those Members their respective counterparties for their positions in the subject security as of the critical date of that event.

*i. Overview of the CNS Reorganization Processing System and Section H of Procedure VII of the Rules*

Under the CNS system, all eligible compared and recorded transactions for a particular settlement date are netted by issue into one net long (buy), net short (sell) or flat position per Member. As a continuous net system, those positions are further netted with positions of the same issue that remain open after their originally scheduled settlement date (usually T+2), so that trades scheduled to settle on any day are netted with fail positions which results in a single deliver or receive obligation for each Member for each issue in which the Member has activity.

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<sup>7</sup> For purposes of this filing, an “asset servicing event” refers to asset servicing or other events that may or may not relate to corporate reorganizations or payments, for example, payments pursuant to litigation or other disputes, distributions on class actions, bankruptcy payments, consent solicitations, other distributions, claims or fees.

Through the CNS Reorganization Processing System, NSCC may apply eligible corporate reorganization events to its Members' positions in CNS Securities when such events occur during the settlement cycle. Corporate reorganization events that NSCC may apply to these transactions in the subject securities include (1) mandatory reorganizations (for example, mergers, full redemptions, liquidations, reverse splits, and name changes); and (2) voluntary reorganizations (for example, mergers with elections, tender offers, and exchange offers). As set forth in Section H of Procedure VII of the Rules, NSCC has the discretion to (1) exclude certain corporate reorganization events (including those for which operational difficulties would prevent the processing through the CNS Reorganization Processing System); and (2) process corporate reorganization events that would otherwise be ineligible if NSCC determines that it has the capability to do so.

Section H of Procedure VII of the Rules describes the timeline of actions that must occur in connection with the processing of eligible corporate reorganization events, and states that NSCC would provide Members with notice detailing how corporate reorganization events would be processed if they would otherwise be ineligible for processing. As described in the Rules, the processing of mandatory reorganizations occurs automatically. The processing of voluntary reorganizations through the CNS Reorganization Processing System, however, 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). Currently, Section H of Procedure VII of the Rules describes the rules and actions applicable to voluntary reorganizations with a protect period of two days in roughly chronological order. A table within Section H of Procedure VII of the Rules identifies the timeline of rules and actions applicable to voluntary reorganizations that have a protect period of one day or that do not have a protect period.

NSCC may assist its Members by applying to CNS Securities applicable asset servicing events. NSCC may also determine that operational difficulties prevent it from applying certain asset servicing events, in which case, Members must work directly with each other to process those asset servicing events. As a result of CNS netting, counterparties to obligations are not known to each other. Therefore, in order to process asset servicing events away from NSCC, Members occasionally request that NSCC identify their counterparty to a particular obligation over the critical event date (*e.g.*, the record date or the position capture date). In these circumstances, NSCC applies a random allocation procedure (utilizing the same allocation procedure described in Procedure VII, Section H,1 of the Rules) to match counterparties. After matching counterparties through this allocation procedure, NSCC contacts each of the counterparties via e-mail or telephone to receive authority to identify the counterparties to the requesting Member.

***ii. Rationale for Proposed Rule Changes***

In connection with a review of its Rules, NSCC identified opportunities to improve Section H of Procedure VII of the Rules in order to more clearly describe the operation of the CNS Reorganization Processing System. NSCC also determined that this section of the Rules should be revised to correct drafting errors in, and make other technical corrections to, the current descriptions within the Rules.

Currently, the Rules do not address the application of asset servicing events, which are applied automatically by NSCC and do not require any action by Members. However, NSCC believes it would improve the transparency of the Rules to include a section in Procedure VII, Section H of the Rules that would describe NSCC's authority to apply asset servicing events, identify examples of asset servicing events that it may not apply, and describe how NSCC may assist Members to process asset servicing events outside of its facilities, as described further below.

NSCC believes these proposed changes would improve Members' understanding of their rights and obligations, and NSCC's rights and obligations, in connection with the CNS Reorganization Processing System and the processing of assets servicing events and, thereby, would improve the operation of these services.

***iii. Proposed Changes to Description of CNS Reorganization Processing System***

The proposed changes, described below, would improve and update the Rules that describe the operation of the CNS Reorganization Processing System, by clarifying and enhancing the descriptions to make them clearer to Members. NSCC believes making these descriptions clearer would enhance Members' understanding of their rights and obligations in connection with this service.

*Proposed Clarifications to the Scope of Corporate Reorganization Event Processing.*

Under the introduction to “Corporate Reorganizations,” in Section H, 4 of Procedure VII of the Rules, NSCC is proposing changes to clarify and correct the descriptions of which corporate reorganization events may be processed through the CNS Reorganization Processing System and NSCC’s authority to exclude certain corporate reorganization events from such processing.

Revising the Non-Exhaustive List of Corporate Reorganization Events that May be Applied by NSCC. The proposed changes to Procedure VII, Section H, 4 of the Rules would retain the existing list of the most common types of events that NSCC may process, but would clarify that this is a non-exhaustive list of examples. The proposed change would also revise the reference from “redemptions” to “full redemptions” within the list of examples of mandatory reorganizations that NSCC may process. The current use of the term “redemptions” was intended to refer to full redemptions, which are generally processed by NSCC. However, without using the qualifier “full,” NSCC believes Members may misunderstand and believe that NSCC would process partial redemptions. Partial redemptions are not processed by NSCC. Therefore the proposed change would clarify which type of redemptions are processed by NSCC and were intended to be included in this list.

The proposed change would also add mergers with elections to the list of voluntary reorganizations that may be processed through the CNS Reorganization Processing System as these events are applied relatively frequently and NSCC believes including these events in this non-exhaustive list would improve the transparency of the Rules. Within this section, NSCC is also proposing to revise the defined term from

“tender offers” to “voluntary offers,” because this defined term, as used in this section of Procedure VII of the Rules, refers to two types of voluntary offers – both tender offers and exchange offers. This proposed change would improve the clarity of these procedures where the current defined term may incorrectly imply that exchange offers are not included when this defined term is used.

NSCC is also proposing to revise the list of securities that would not be processed through the CNS Reorganization Processing System by changing “securities subject to redemption if there is a conversion privilege attached”<sup>8</sup> to “securities subject to a conversion event.” While NSCC would not process conversion events due to operational difficulties, as described below, it generally would, as stated above, process full redemptions. The current language in this list was intended to reflect that NSCC would process a redemption event, but, if that event has a conversion privilege attached, it would not process the related conversion. The proposed change would clarify the meaning and would mitigate any confusion about the eligibility of these events for processing by providing greater transparency in the Rules with respect to the treatment of both full redemption events and conversion events.

Removing Descriptions of Corporate Reorganization Events that are Not Supported by the CNS Reorganization Processing System. NSCC is proposing to remove descriptions of the processing of two types of voluntary reorganizations that it does not support in the CNS Reorganization Processing System: (1) voluntary reorganizations that

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<sup>8</sup> A “redemption” is a reorganization event that occurs on a maturity date when the issuer makes a payment on debt securities for the principal amount plus any accrued interest. A redemption may include a conversion privilege, which would entitle the security holder to convert the security in lieu of the redemption payment.

have a protect period longer than two business days and (2) conversion events for convertible securities. As described below, NSCC has generally exercised its existing authority provided under Procedure VII, Section H of the Rules and declined to process these events due to operational difficulties. Therefore, while these changes would revise the Rules as written, the changes would not result in any change in the current operation of the service. Rather, the proposed change would reflect NSCC's longstanding exercise of its authority to decline to process these events. As such, NSCC does not believe that either of these changes would alter the respective rights or obligations of NSCC or Members using this service. NSCC believes these proposed changes would mitigate any confusion by Members regarding the availability of this service.

First, NSCC is proposing to add a sentence to this Section H, 4 of Procedure VII of the Rules to make clear that NSCC generally would not process voluntary reorganizations that have a protect period longer than two business days. These types of events are extremely rare as the vast majority of voluntary reorganizations have a protect period of two business days or less. Additionally, industry feedback provided to NSCC has indicated that there is a preference that these events be processed outside NSCC's facilities.<sup>9</sup>

In connection with this proposed change, NSCC would also remove from Section H, 4(b) of Procedure VII of the Rules descriptions of the special rules that govern the

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<sup>9</sup> The Corporate Actions Section of the Operations & Technical Society of Securities Industry and Financial Markets Association ("SIFMA") meets periodically to discuss issues related to corporate reorganization processing. NSCC staff attends these meetings. As recently as September 2017, this group requested that NSCC exercise the discretion currently provided to it in Procedure VII, Section H of the Rules to no longer process voluntary reorganization events with a protect period longer than two business days due to operational challenges in processing these events. This request was not solicited by NSCC.

processing of events with a protect period longer than two business days. Some of the descriptions of these special processing rules currently in Section 4(b) do not clearly indicate that they are only applicable to these types of events, which could cause Members confusion about whether these descriptions are applicable to the processing of all voluntary reorganizations. Further, if NSCC does decide to process an event with a protect period longer than two business days, it would provide Members with a notice detailing the applicable processing rules, as currently stated in the introduction to “Corporate Reorganizations,” in Section H, 4 of Procedure VII of the Rules.

Therefore, NSCC is proposing to remove a sentence in the introduction to Section H, 4(b) of Procedure VII of the Rules that states the rules within this subsection apply to voluntary reorganizations with a protect period longer than two business days unless otherwise stated. Additionally, within this section under new subheading “On and Following E+3,” NSCC is proposing to remove the statement that positions may be removed from the CNS Reorganization Sub-Account as a result of the CNS allocation process because only voluntary reorganizations that have a protect period longer than two business days would reach the CNS allocation process after NSCC has frozen positions in the CNS Reorganization Sub-Account. NSCC would also remove a paragraph under this subheading that describes the effect of the CNS allocation process on positions subject to a voluntary reorganization because, as stated above, only voluntary reorganizations that have a protect period longer than two business days would reach the CNS allocation process at this point in the processing timeline.

Second, NSCC would remove Section H, 5 of Procedure VII of the Rules which describes the special processing rules that apply to a conversion event for convertible

securities. For at least the past 10 years, NSCC has exercised its existing authority to decline to process these reorganization events for convertible securities due to operational difficulties. Therefore, the proposed rule change would reflect the longstanding operation of the CNS Reorganization Processing System, and would mitigate any confusion by Members regarding the availability of this service.

NSCC does not believe these proposed changes would alter the respective rights or obligations of NSCC or its Members using this service.

*Proposed Clarifications to Voluntary Reorganization Processing Rules.*

NSCC is also proposing changes that would clarify and enhance the description of rules applicable to voluntary reorganizations under Section H, 4(b) of Procedure VII of the Rules.

*Adding Chronological Subheadings and Reordering the Processing Rules.* In order to better organize these rules and improve the transparency regarding when certain rules apply within the reorganization processing timeline, NSCC is proposing to add chronological subheadings within this section. Within the descriptions of the rules under each new subheading, NSCC would revise statements by removing redundant references to timing because the timing of that applicable statement or rule would be clear from the new subheadings. This proposed change would simplify these descriptions of the applicable rules, making them clearer and more easily understood by Members.

NSCC is also proposing to reorder certain statements within this section of Procedure II to be more closely aligned to chronological order. While the chronology of processing has not changed, over time various revisions to these Rules have added descriptions to this section that are out of chronological order. NSCC is proposing to

move the description of the processing that occurs on E+1 to follow the description of processing that occurs after the CNS night cycle processing on E+1. Additionally, NSCC is proposing to move two statements regarding the regular CNS allocation process to the new subheading “On E+2 (Protect Period Expiration Date).” These two statements describe the occurrence of the regular CNS allocation process and the priority within that allocation process of certain positions. Currently, these statements appear lower in the timeline.

Revisions Under “On E+2 (Protect Period Expiration Date).” Under the new subheading “On E+2 (Protect Period Expiration Date),” NSCC is proposing to clarify that Members are prohibited from moving subject securities between the Fully-Paid-For Subaccount and the CNS General Account either on the protect expiration date or on the expiration of the voluntary reorganization when there is no protect period, as applicable. Currently, the Rules simply refer to the Fully-Paid-For Subaccount as a “non-reorganization subaccount.” NSCC believes the proposed change would improve the transparency of the Rules by more clearly identifying the subaccount that is subject to this restriction. NSCC is also proposing to move this statement earlier under the new heading “On E+2 (Protect Period Expiration Date)” because this restriction is applicable throughout during E+2 (rather than only after the day cycle, where it is currently listed). Finally, as described further below, NSCC is proposing to add this rule to the table within this section because this rule also applies to the events addressed by this table. This proposed change would improve the transparency of the Rules by making the table more comprehensive.

Revisions Under “After Day Cycle – E+2.” Under the new subheading “After Day Cycle – E+2,” NSCC is proposing to remove a sentence from the Rules that is a statement of fact that Members may have a partial allocation of positions in the CNS Reorganization Sub-Account. While accurate, this statement does not describe the rights or obligations of either NSCC or its Members in connection with the processing of corporate reorganization events, nor does it provide any material information that NSCC believes would be relevant to Members in their understanding of the operation of this service. NSCC is proposing to simplify the Rules by removing statements that do not provide important information to Members regarding the operation of this service and NSCC believes this proposed change would make the Rules clearer and more easily understood by Members.

Also under this new subheading, NSCC is proposing to revise the description of the process by which a Member may request that NSCC move a long position in a subject security from the CNS Reorganization Sub-Account back to the CNS General Account. The proposed change would clarify that, where one Member may make the request, the Member with the corresponding long or short position must approve that request before NSCC would take action. This proposed change would improve the transparency of the Rules by including a description of this necessary step in the processing of these requests that is not currently stated in the Rules.

Under the new subheading “After Day Cycle – E+2,” NSCC is proposing to remove the description of the process by which NSCC would exit a security from the CNS System if it is subject to more tender offers than available CNS Reorganization Sub-Accounts. In the event that a CNS Security is subject to more tender offers than available

CNS Reorganization Sub-Accounts, NSCC would exercise its discretion, as stated earlier in Section H, 4 of Procedure VII, and would not process the voluntary reorganization due to operational difficulties. Therefore, while this statement, which appears later in this section, is accurate, NSCC does not believe it is necessary to include this additional statement in the Rules. NSCC's decision not to process the voluntary reorganization due to operational difficulties would occur earlier in the chronology and is already covered by the earlier, broader statement regarding the scope of corporate reorganization event processing. This proposed change would simplify the Rules by removing an unnecessary statement that is redundant of an earlier statement and would make the Rules clearer.

Revisions Under "On and Following E+3." Under the new subheading "On and Following E+3," NSCC is proposing to improve the description of the circumstances in which positions in the CNS Reorganization Sub-Account would be returned to the Members' CNS General Account by including a description of when a voluntary reorganization is canceled or when the expiration date of a voluntary reorganization is extended. This proposed change would make this description more comprehensive and, therefore, improve the transparency of the Rules.

Also under this new subheading, NSCC is proposing to remove a paragraph that describes the process for reflecting a delivery of a subject security outside NSCC's facilities because NSCC believes this is a repetitive description of the process by which Members may request that their positions be removed from the CNS Reorganization Sub-Account back to the CNS General Account. This process is already described in the Rules under the new subheading "On and Following E+3." Therefore, the proposed

change would simplify the Rules by removing a redundant statement that does not provide Members with additional information regarding the process described above.

Revisions to the Processing Rules Table. NSCC is also proposing changes that would improve the information within the table in this section of the Rules. This table identifies the timeframes for processing (1) voluntary reorganizations with a protect period of one day and (2) voluntary reorganizations with no protect period. The proposed changes to this table would clarify in the introduction to this table that the table applies to these two types of events, where it currently states it is applicable to processing of voluntary reorganizations with protect period of one day “or less.” NSCC is also proposing to include in this table the rule that Members are prohibited from moving positions in subject securities between the CNS General Account and Fully-Paid-For Subaccount either on the protect period expiration date (in this case, E+1) or, when there is no protect period, on the event expiration date (in this case, E). Including this rule, which is applicable to the processing of these events, would make this table more comprehensive and improve the transparency of the Rules.

Proposed Technical Revisions to Improve, Clarify and Simplify Descriptions. NSCC is proposing technical revisions to the descriptions throughout Section H of Procedure VII of the Rules that would enhance the clarity and transparency of these procedures. Such changes would correct the use of defined terms and typographical and other drafting errors, revise statements for clarity and consistency, and improve internal cross-references within the Rules. Additionally, NSCC would propose to add “money balances” to Section H, 1 of Procedure VII, which describes the types of adjustments NSCC may make within the CNS system and which may appear on the Members’

Miscellaneous Activity Report. Currently, this section only refers to “positions” which could be interpreted to mean only securities positions. Because NSCC may make adjustments to either securities positions or money balances within CNS, the proposed change would clarify this statement and improve the transparency of this section of the Rules.

As another example of the technical revisions being proposed, NSCC would also revise references within these procedures from “short positions” or “long positions” that are being processed through the CNS Reorganization Processing System to “short positions in the subject security” and “long positions in the subject security.” NSCC would also propose to amend this section by revising references to the “Sub-Account” to the complete defined term, the “CNS Reorganization Sub-Account.”

NSCC believes the proposed technical revisions would create clearer descriptions of the rules that apply to the services described in this section of Procedure VII of the Rules and would improve the transparency of these processing procedures.

***iv. Proposed Changes to Describe Processing of Asset Servicing Events and Authority to Reveal Counterparties***

NSCC is proposing to amend Section H of Procedure VII of the Rules to include a new subsection 7 that would (1) disclose NSCC’s authority to determine when it may or may not process certain asset servicing events; (2) provide examples of asset servicing events that NSCC may determine shall be processed outside its facilities; and (3) describe the process by which NSCC may assist its Members in applying asset servicing events outside its facilities, including NSCC’s authority to match counterparties as of the critical date of that asset servicing event and reveal those counterparties to those Members.

*NSCC's Authority to Apply or Decline to Apply Asset Servicing Events.*

NSCC currently may assist its Members by applying certain asset servicing events to Members' positions in CNS Securities that are subject to that event on the relevant event date or payment date. NSCC may also, in its discretion, determine that operational difficulties or other circumstances would prevent the processing of such asset servicing events within its facilities. NSCC is proposing to add a new Section H, 7 of Procedure VII of the Rules to provide transparency regarding its discretion in supporting asset servicing events with respect to transactions in CNS Securities, and its discretion in determining when it may be appropriate that an asset servicing event be processed outside its facilities due to operational difficulties or other concerns regarding the event.

*Identify Examples of Asset Servicing Events that NSCC May Not Process.*

NSCC is also proposing to include in this new Section H, 7 of Procedure VII of the Rules examples of the types of asset servicing events NSCC may determine shall be processed outside its facilities. These events may include payments pursuant to litigation or other disputes, distributions on class actions, bankruptcy payments, consent solicitations, other distributions, claims, fees, or events with respect to which a Member has notified the Corporation that it either has incurred or anticipates that it will incur liabilities greater than the terms of the reorganization event.

In connection with this change, NSCC is proposing to remove the last paragraph in Section H, 4 of Procedure VII of the Rules that describes the process by which it would remove positions in subject securities from the CNS System if a Member has notified NSCC that it either has incurred or anticipates it will incur liabilities greater than the terms of the reorganization event. Instead, NSCC would include these events in the

list of asset servicing events that may be processed outside of NSCC's facilities within the proposed new Section H, 7 of Procedure VII of the Rules. This proposed change would ensure the Rules continue to provide Members with an appropriate level of transparency regarding how these events are treated without providing unnecessary details regarding actions that are taken by NSCC in order to effect the exit of these positions from the CNS System. Therefore, the proposed change would simplify the Rules, which improves its overall clarity.

*NSCC Authority to Reveal Counterparties to Assist Members in Processing Asset Servicing Events Away From NSCC.*

The proposed rule change would also include a description in this new Section H, 7 of the Rules of NSCC's authority to use a random allocation procedure to match counterparties and identify those counterparties to Members. As stated earlier, counterparties to obligations in CNS Securities are not known to each other as a result of the continuous netting of transactions within CNS. Therefore, Members occasionally request that NSCC identify their counterparty to a particular obligation over a critical event or payment date in order to (1) assist them in the processing of an asset servicing event outside of NSCC's facilities, or (2) address claims, disputes, or information requests related to an event that NSCC has processed and that requires the Member to work directly with the counterparty. In these circumstances, NSCC applies a random allocation procedure (utilizing the same allocation procedure described in Procedure VII, Section H, 1 of the Rules) to match counterparties. Currently, after matching counterparties through its allocation procedure, NSCC contacts each of the counterparties via e-mail or telephone to receive authority to identify the counterparties to the requesting Member.

As a result of the proposed change, NSCC would continue its practice of applying a random allocation procedure (utilizing the same allocation procedure described in Procedure VII, Section H, 1 of the Rules) to match counterparties when requested by a Member. The proposed rule change would provide Members with notice that NSCC may reveal counterparties to a requesting Member in these circumstances. By providing this notice in the Rules, NSCC would no longer contact the counterparty to receive authority to reveal that counterparty's identity to the requesting Member. Therefore, NSCC would be able to expedite the process and provide Members with the information they need to process asset servicing events or address other related requests outside of its facilities more quickly.

Given that Members often request this information from NSCC and NSCC generally receives the requested authority to reveal the identity to its relevant counterparty, NSCC believes the proposed change would improve the transparency of its Rules, improve the processing of these events, and help NSCC continue to provide Members with a beneficial service.

(b) Statutory Basis

For the reasons described below, NSCC believes that the proposed changes are consistent with the Section 17A(b)(3)(F) of the Act, which requires, in part, that the rules of a registered clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>10</sup>

The proposed rule change would improve the transparency of the Rules and would clarify and correct the descriptions within Section H of Procedure VII of the

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<sup>10</sup> 15 U.S.C. 78q-1(b)(3)(F).

Rules, particularly the procedures applicable to the CNS Reorganization Processing System. Specifically, the proposal to add a description of the processing of asset servicing events, including NSCC's discretion to determine that such events should be processed outside its facilities, would also improve the transparency of the Rules regarding these matters.

The CNS Reorganization Processing System allows transactions in eligible CNS Securities to be processed for clearance and settlement through NSCC's CNS Accounting System notwithstanding the occurrence of a corporate reorganization event. By creating clearer Rules regarding the processing of both corporate reorganization events and asset servicing events to CNS Securities, and by increasing transparency regarding Members' and NSCC's rights and obligations in this regard, the proposed changes would better facilitate the operation of CNS Reorganization Processing System and would better facilitate the application of asset servicing events. Therefore, the proposed change would also better facilitate the operation of the CNS system and, in this way, would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.<sup>11</sup>

Additionally, by providing Members with notice through the new Section H, 7 of Procedure VII of the Rules that NSCC may, when requested, identify their respective counterparties as of the critical event date, NSCC would no longer need to seek specific approval from each Member in order to do so. Therefore, the proposed changes would expedite Members' ability to process asset servicing events outside of NSCC's facilities. By assisting Members to process asset servicing events applicable to CNS Securities

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<sup>11</sup> Id.

outside of NSCC's facilities, the proposed changes would also promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.<sup>12</sup>

Rule 17Ad-22(e)(23)(i) under the Act requires, in part, that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to provide for publicly disclosing all relevant rules and material procedures.<sup>13</sup> As described above, the proposed rule change would improve the transparency, clarity, and accuracy of the Rules, such that these provisions of the Rules would better publicly disclose all relevant and material procedures regarding the aspects of the operation of NSCC's CNS Reorganization Processing System and the processing of asset servicing and other events and payments. Therefore, NSCC believes the proposed rule changes are consistent with Rule 17Ad-22(e)(23)(i).<sup>14</sup>

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

NSCC does not believe that the proposed rule changes would have any impact, or impose any burden, on competition. The proposed rule changes would improve Members' understanding of their rights and obligations with respect to the operation of the CNS Reorganization Processing System and would improve transparency regarding the processing of asset servicing and other events and payments. These proposed changes would be applicable to all Members that utilize these services and would not alter Members' rights or obligations.

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<sup>12</sup> Id.

<sup>13</sup> See 17 CFR 240.17Ad-22(e)(23)(i).

<sup>14</sup> Id.

The proposed rule change to remove descriptions of processing events that NSCC generally does not process due to operational difficulties, pursuant to its existing authority, would not result in any change in the current operation of the service. Rather, the change would update the Rules to reflect current practice. These changes would not alter Members' rights or obligations with respect to this service.

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

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

NSCC has not solicited or received any written comments relating to this proposal. NSCC will notify the Commission of any written comments that it receives.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>15</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>16</sup> At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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

<sup>16</sup> 17 CFR 240.19b-4(f).

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2018-003 on the subject line.

##### Paper Comments:

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

All submissions should refer to File Number SR-NSCC-2018-003. 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSCC-2018-003 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>17</sup>

Eduardo A. Aleman  
Assistant Secretary

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