

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="50"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2018"/> - * <input type="text" value="006"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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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 type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" 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 checked="" type="checkbox"/> 19b-4(f)(4)	<input type="checkbox"/> 19b-4(f)(6)
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	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"/>
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Description

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

Clarify and Update Certain Sections of the Rules

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 * <input type="text" value="Jacqueline"/>	Last Name * <input type="text" value="Chezar"/>
Title * <input type="text" value="Executive Director and Associate General Counsel"/>	
E-mail * <input type="text" value="jfarinella@dtcc.com"/>	
Telephone * <input type="text" value="(212) 855-3216"/>	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 <input type="text" value="09/19/2018"/>	<input type="text" value="Managing Director and Deputy General Counsel"/>
By <input type="text" value="Nikki Poulos"/>	<input type="text" value="npoulos@dtcc.com"/>

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.

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

Add Remove View

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

Add Remove View

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 Proposed Rule Change

(a) The proposed rule change of National Securities Clearing Corporation (“NSCC”) is attached hereto as Exhibit 5 and consists of modifications to the Rules and Procedures of NSCC (“Rules”)¹ in order to clarify and update certain sections of the Rules, and to improve the transparency of those Rules and Members’ understanding of NSCC’s services, as described below.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Risk Committee of the Board of Directors of NSCC at a meeting duly called and held on December 19, 2017.

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

(a) Purpose

NSCC is proposing to make revisions to certain Rules in order to clarify and update those Rules. The Rules that NSCC is proposing to revise generally relate to the processing of NSCC’s Continuous Net Settlement (“CNS”) system (described below), and include Rule 3 (Lists to Be Maintained), Rule 11 (CNS System), Procedure II (Trade Comparison and Recording Service) and Procedure VII (CNS Accounting Operation).

First, the proposed changes are designed to enhance the transparency of these Rules by adding information. Second, the proposed changes are designed to simplify these Rules by removing information that either (a) describes internal processing and does not provide Members with important information regarding the applicable service, or (b) no longer describes the current processing operation. Finally, the proposed changes would revise statements to more clearly disclose to Members the operation of the applicable service and, thereby, provide Members with a better understanding of their rights and obligations, and NSCC’s rights and obligations, in connection with the use of those services.

NSCC is also proposing to make certain technical changes to correct typographical errors, revise the wording of statements to improve their clarity and update the use of defined terms. Such changes would be made in the Rules cited above, as well as Rule 9 (Envelope Settlement Service).

¹ 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.

Each of these proposed changes is described below.

(i) ***Overview of the CNS System***

NSCC's core services are trade capture through its Universal Trade Capture ("UTC") system, and clearance and settlement through its CNS System. Trade capture, the first step in the clearance and settlement process, involves the daily receipt of trade data from over trading venues, including U.S. securities exchanges and automated trading facilities, and from Members submitting transaction data directly. That data is then compared or recorded.² Trade comparison consists of validating and matching the buy and sell sides of a securities transaction, and results in a compared trade that is reported to Members.

Compared and recorded transactions in CNS Securities are processed in the CNS System.³ 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.⁴ 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 two days after trade date), so that trades scheduled to settle on any day are netted with fail positions to result in a single deliver or receive obligation for each Member for each issue in which it has activity. NSCC becomes the contra-party for settlement purposes, assuming the obligation of its Members that are receiving securities to receive and pay for those securities, and the obligation of Members that are delivering securities to make the delivery.

CNS relies on an interface with NSCC's affiliate, The Depository Trust Company ("DTC"), for the book-entry movement of securities to settle transactions. CNS short positions are compared against Members' DTC accounts to determine availability of securities for delivery. If securities are available, they are transferred from the Member's account at DTC to NSCC's account at DTC to cover the Member's short obligations to CNS. To control the

² NSCC's trade comparison and recording services are described in Rule 7 and Procedure II of the Rules. Supra note 1. Over 99% of all trade data is submitted to NSCC on a "locked-in" basis, meaning that it is already compared by the marketplace of execution. When submitted, locked-in trades are validated and recorded, via NSCC's UTC system, and reported to Members.

³ "CNS Security" is further defined in Rule 1 of the Rules, and the list of eligible CNS Securities is described in Rule 3 of the Rules. Supra note 1. Pursuant to the Rules, a CNS Security must be eligible for book-entry transfer on the books of DTC, and must be capable of being processed in the CNS System; for example, securities may be ineligible for CNS processing due to certain transfer restrictions (e.g., 144A securities) or due to the pendency of certain corporate actions.

⁴ The CNS System and the CNS Accounting Operation is described in Rule 11 and Procedure VII of the Rules. Supra note 1.

automatic delivery of securities from their DTC accounts (for example, to prevent the automatic delivery of customer fully-paid securities), Members can use CNS exemption procedures, as described in Section D of Procedure VII of the Rules.

The allocation of CNS long positions to receiving Members is processed in an order determined by an algorithm built into the system. Securities are automatically allocated to Members' long positions as the securities are received by NSCC. Members can request that they receive priority for some or all issues on a standing or override basis, as described in Section D of Procedure VII of the Rules. Submission of buy-in notices (described in Section J of Procedure VII of the Rules) and other specified activity will also affect the priority of a Member's long position.

Daily money settlement for CNS activity is based on the value of all settled positions plus or minus mark-to-the-market amounts for all open CNS positions, and occurs through NSCC. Such settlement amounts may include, for example, adjustments for applicable interest or dividend payments on a Member's positions in a CNS Security. The CNS deliveries made through DTC are made free of payment.

(ii) *Proposed Changes to Enhance Transparency of the Rules*

NSCC is proposing changes that would add more information to the Rules in order to enhance the transparency of those Rules.

a. Improve Disclosures Regarding Cleared Securities List

Rule 3 of the Rules describes the lists maintained by NSCC that include, for example, securities that are eligible to be cleared through its facilities (defined in the Rules as "Cleared Securities").⁵ This Rule also describes the bases for removing a security from these lists. Currently, Section 1(a) of Rule 3 of the Rules states that a security may be removed from the list of Cleared Securities if, for example, it has been suspended from trading pursuant to Section 12(k) of the Securities Exchange Act of 1934 ("Act").⁶ NSCC is proposing to update this sentence to also provide that a security may be removed from the list of Cleared Securities if it has been suspended from trading pursuant to Section 12(j) of the Act.⁷ Both Sections 12(k) and (j) of the Act could cause the suspension of trading a security, which would cause such security to be removed from the list of Cleared Securities. Therefore, NSCC believes that the proposed

⁵ Supra note 1.

⁶ See 15 U.S.C. 78l(k). Section 12(k) of the Act authorizes the Securities and Exchange Commission ("Commission") to summarily suspend trading in a security if, in the Commission's opinion, the public interest and the protection of investors so require.

⁷ See 15 U.S.C. 78l(j). Section 12(j) of the Act authorizes the Commission to revoke the registration of a security if the issuer fails to comply with the federal securities laws.

change would provide Members with improved transparency regarding the possible circumstances under which a security may no longer be eligible to be processed by NSCC.

b. Relocate Sentence Regarding CNS Security Eligibility

NSCC is proposing to move a statement regarding the circumstances in which a Cleared Security may be removed from the list of CNS Securities from Section 10 of Rule 11 of the Rules to Section 1(b) of Rule 3 of the Rules. Currently, Section 1(b) of Rule 3 of the Rules states generally that NSCC may, from time to time, add Cleared Securities to, or remove Cleared Securities from, this list of CNS Securities. The sentence in Section 10 of Rule 11 of the Rules identifies some of the circumstances when NSCC may determine to remove a Cleared Security from this list. NSCC believes the proposed change to move this statement to Rule 3 of the Rules would improve the transparency of the Rules. In connection with this change, and to further enhance the transparency of the Rules, NSCC is also proposing to add to this statement that a Cleared Security may be removed from the list of CNS Securities if NSCC determines that maintaining such security on the list of CNS Securities may pose additional risk to NSCC or its Members. NSCC believes that this proposed change would be consistent with NSCC's general discretion to remove Cleared Securities from the list of CNS Securities, and would provide Members with additional transparency regarding the circumstance when this may occur.

c. Improve Disclosures Regarding Information that May be Required by Envelope Settlement Service

NSCC provides its Members with a service through which it may accept physical envelopes in connection with delivery and receipts of securities, money settlements, or claims for dividends and interest, as described in Rule 9 of the Rules. Currently, Section 1.3 of Rule 9 states that all envelopes delivered through this service must be accompanied by any information NSCC may require from time to time. NSCC is proposing to update this sentence to state that such information may include, when applicable, information regarding certifications from the Office of Foreign Assets Control ("OFAC"). In 2007, NSCC provided its Members with notice that it would require Members to identify any applicable OFAC certifications within envelopes delivered through this service.⁸ The proposed change would improve the transparency of the Rules by including this requirement as an example of the type of information NSCC may require under Rule 9 of the Rules.

d. Improve Disclosures Regarding Dividend and Distribution Payments and Debits on CNS Securities

Currently, Section 8(a) of Rule 11 of the Rules describes how NSCC reports to Members that it has received notice from an issuer that a stock or cash dividend has been declared on a CNS Security in which such Members have either long or short positions. Section 8(a) of Rule

⁸ See Important Notice A#6384, P&S#5954, dated January 23, 2007, available at <http://www.dtcc.com/~media/Files/pdf/2007/1/23/A6384.pdf>.

11 and Section G of Procedure VII of the Rules both further describe how such Members are either debited or credited the appropriate amounts on the payable date of an applicable dividend or other distribution. NSCC is proposing to update the Rules to clarify that, when a dividend or distribution is subject to non-U.S withholding taxes, the amount debited or credited, as appropriate, may be adjusted to reflect applicable taxes at a rate determined by NSCC in its sole discretion.⁹ While Section G of Procedure VII of the Rules currently discloses that NSCC would apply the *appropriate* credit or debit on the payable date, the proposed changes would further disclose this adjustment that may be made to that credit or debit when applicable. NSCC believes that the proposed rule change would improve the transparency of the Rules.

(iii) Proposed Changes to Update and Simplify the Rules

NSCC is proposing to simplify the Rules by, for example, removing descriptions of internal processing that, NSCC believes, do not provide Members with important information regarding the use of NSCC's services, and by updating descriptions to reflect existing processes. These proposed changes would make the Rules clearer and more easily understood by Members.

a. Remove Description of Requirement that Envelopes Include Duplicate Credit Lists

Currently, Section 1.3 of Rule 9 of the Rules, which describes the Envelope Settlement Service, states that Members must include in envelopes duplicate credit lists. This service is now automated and, in practice, NSCC would generate a copy of a credit list if one is not provided. Therefore, NSCC is proposing to remove the reference to the duplicate credit list in order to remove the requirement that a duplicate credit list be provided and to update the Rules to reflect current practice.

b. Remove Descriptions of Processing of Securities with Exercise Privileges

NSCC is proposing to remove Section 11 of Rule 11 and Section K of Procedure VII of the Rules, which describe the process by which a Member may submit to NSCC a notice regarding an exercise privilege, and how that notice would subsequently be processed by NSCC. For at least the past 10 years, NSCC has not received any Notices of Intention to Exercise with respect to the exercise of a conversion, warrant or right attached to a security. Additionally, NSCC has generally exercised the discretion provided under Section H of Procedure VII and declined to process conversion events through the CNS Reorganization Processing System.¹⁰ In

⁹ In practice, NSCC would generally apply the tax treaty rate that is also applied by DTC.

¹⁰ See Securities Exchange Act Release No. 83654 (July 17, 2018), 83 FR 34901 (July 23, 2018) (SR-NSCC-2018-003), which approved NSCC's proposal to enhance the Rules related to the CNS Reorganization Processing System, including by removing Section H, 5 of Procedure VII of the Rules, which described the special processing rules that applied to a conversion event for convertible securities.

practice, NSCC does not process the exercise of a conversion, warrant or right and it exits securities from the CNS System if these applicable privileges are exercised during the settlement cycle.¹¹

While this proposed change would revise the Rules as written, the change would not result in any change to current practice. Rather, the proposed change would reflect NSCC's longstanding practice to remove these securities from the CNS System. As such, NSCC does not believe this change would alter the respective rights or obligations of NSCC or Members using this service. NSCC believes this proposed change would mitigate any confusion by Members regarding the availability of this service.

c. Remove Descriptions of Internal Processing in the CNS System

Currently, Section C.1 of Procedure VII of the Rules describes how NSCC's records are updated internally each day to reflect the results of netting through the CNS System. The end of this section includes two sentences regarding indicators that are applied by the CNS System reflecting where positions are subject to exemptions from delivery, requests for priority allocation, or buy-ins.¹² These indicators are applied within the CNS System to facilitate the settlement process. NSCC is proposing to remove these sentences from this Section because it does not believe they provide Members with important information regarding their rights and obligations, or NSCC's rights and obligations, in connection with this service. NSCC believes that the proposed change would simplify the Rules, making them clearer to Members.

(iv) Proposed Changes to Update and Revise the Rules

NSCC is proposing to update and revise certain statements in the Rules in order to make them clearer and more transparent and, thereby, provide Members with a better understanding of their rights and obligations, and NSCC's rights and obligations, in connection with the use of NSCC's services.

a. Revise Statements Regarding Members' Priority Requests for Receipt of Securities

As provided for in Section E of Procedure VII of the Rules, Members may submit to NSCC requests regarding the priority of CNS allocation for their positions. Currently, a

¹¹ After these securities are exited from CNS, the exercise of a conversion, warrant or right occurs bilaterally, away from NSCC.

¹² Members can submit instructions to influence the priority of certain positions in the CNS allocation process, and can also submit instructions to exempt certain positions from delivery in CNS, as described in Sections D and E of Procedure VII. Supra note 1. Additionally, Members with long positions that have failed may notify NSCC of their intent to purchase or "buy-in" those securities, which causes those positions to have high priority in CNS allocations, as described in Section J of Procedure VII. Id.

statement in Section A of Procedure VII and the title of Section E of Procedure VII of the Rules state that such requests would “control” the priority of positions in this allocation process. NSCC is proposing to revise this statement and the title to Section E of Procedure VII of the Rules to make clear that priority requests from Members would *influence*, but may not control, the priority of positions in the CNS allocation process. For example, a priority request may not control the receipt of positions in the CNS allocation process when a Member submits a request for a low priority, but has the only long position in that security on that settlement date. In this example, the Member would be allocated that security as the highest (and only) priority in the allocation process. Therefore, NSCC believes that the proposed change would revise the Rules to more clearly describe the effect of these priority requests.

b. Revise Statement Regarding Credit / Debit of Dividends, Interest and Stock Splits

Currently, Section A of Procedure VII of the Rules states that dividends and interest on Members’ positions in CNS Securities are credited or debited to Members’ accounts according to the security positions that exist on record date. NSCC is proposing to revise this statement to remove reference to payments or debits of interest, and to add a new, parallel sentence to Section A of Procedure VII of the Rules that states interest is credited or debited to the Members’ accounts according to the security positions that exist on the day prior to the payable date, and that stock splits are credited or debited to the Members’ accounts according to the security positions that exist on due bill redemption date. In connection with this change, NSCC is proposing to add a cross reference to Section G of Procedure VII of the Rules, where these credits and debits are more fully described. NSCC believes that this proposed change would more clearly describe the security position on which NSCC would apply an applicable debit or credit and, thereby, would improve the clarity and transparency of the Rules.

c. Revise Rules Regarding Exemption Instructions in Delivery of CNS Securities

Currently, Section D of Procedure VII of the Rules describes the process by which Members may submit instructions to NSCC to indicate which short positions they do not wish to settle and should be exempt from delivery. NSCC is proposing revisions to certain statements within this section to more clearly describe Members’ rights and obligations with respect to this service.

First, NSCC is proposing to revise statements in this section to make clear that Members are required to submit instructions for any delivery exemptions to be applied. The proposed changes would clarify this rule by revising a statement regarding the application of the One Day Settling Exemption in the introduction paragraph of Section D of Procedure VII of the Rules. The One Day Settling Exemption is applicable to transactions that are compared or received by NSCC on the day prior to settlement day or thereafter. Currently, the Rules state that this delivery exemption is applied automatically. While NSCC works with all new Members in setting delivery exemptions during onboarding, and instructs new Members to set the One Day Settling Exemption, as required by the Rules, all delivery exemption instructions must be applied through the affirmative action of Members and none are applied automatically.

Second, NSCC is proposing to remove an incorrect statement from Section D.2(c) of Procedure VII of the Rules that NSCC assigns a delivery exemption if no standing or specific exemption instructions are present. Members are required to submit exemptions for each of their respective CNS sub-accounts, as currently stated in the Rules and as described above. Further, setting these delivery exemptions is a part of the NSCC onboarding process for all new Members. Therefore, it is unlikely that no standing or specific delivery exemptions would be present. If, however, no delivery exemption is present for some reason, then none would be applied. Therefore, the proposed change would revise the Rules to remove this statement, which does not describe current processing.

Finally, NSCC is proposing to remove a statement from Section D.2(b)(iv) of Procedure VII of the Rules that states if a Member is allocated securities from one CNS account, those securities override a delivery exemption placed on the short position in its other CNS account. NSCC has confirmed that the allocation of securities from a CNS account of a Member would not override any delivery exemptions in its other CNS account. Therefore, this sentence does not accurately describe the current processing. The proposed change would remove this sentence from the Rules.

d. Revise Statements Regarding Members' Use of the Accounting Summary and Cash Reconciliation Statement Reports

Section F of Procedure VII of the Rules describes two reports that NSCC provides to its Members regarding their CNS activity – the Accounting Summary and the Cash Reconciliation Statement Report. Currently, Section F.2 of Procedure VII of the Rules states that, while the Accounting Summary report constitutes the official record of that Members' CNS activity, because this report is produced later in the day, Members may utilize the Cash Reconciliation Statement Reports to determine their money settlement obligations. Today, in addition to continued delivery of such reports directly to Members, the information provided on the Cash Reconciliation Statement Reports, as well as other information regarding their CNS activity and settlements, is also available to Members through the CNS Dashboard on the DTCC web portal throughout the day.¹³ Therefore, NSCC is updating its Rules to revise this statement, because, due to the additional availability of this information online, it is not necessary to recommend to Members that they may use the Cash Reconciliation Statement Reports to determine their money settlement obligations.

In connection with this change, NSCC would move a statement that the Accounting Summary report constitutes the official record of that Member's CNS activity to the beginning of Section F.2 of Procedure VII of the Rules. By moving this statement to the section that describes the Accounting Summary, NSCC believes that the proposed change would make the Rules clearer to Members.

¹³ See Important Notice A#8357, P&S# 7932, dated March 23, 2017, announcing the Clearing Dashboard and CNS web screens within the DTCC web portal, [available at](http://www.dtcc.com/~media/Files/pdf/2017/3/23/a8357.pdf) <http://www.dtcc.com/~media/Files/pdf/2017/3/23/a8357.pdf>

Finally, NSCC would revise Section F.1 of Procedure VII of the Rules to remove reference to Clearing Fund information in the description of the type of information that may be available on the Accounting Summary. Clearing Fund information is not included in the Accounting Summary report. Therefore, this proposed change would update the Rules to correct this statement and clarify the information that is available on this report. NSCC believes that the proposed change would improve Members' understanding of the availability of information related to their CNS activity.

(v) ***Proposed Technical Changes and Corrections the Rules***

NSCC is proposing to make certain technical revisions and corrections to the Rules that would, for example, correct typographical errors, update terms to more clearly describe a current process, and revise the use of defined terms.

First, NSCC is proposing to remove a typographical error from Section 1.2 of Rule 9 of the Rules, where an incomplete sentence was inadvertently added to the Rules.

Second, NSCC is proposing to revise Section 9 of Rule 11 of the Rules to replace references to DTC, with the defined term, "Qualified Securities Depository." Although DTC does meet the definition of a Qualified Securities Depository, NSCC believes this proposed change would improve the clarity to use the applicable defined term. In a related change, NSCC is also proposing to update a sentence that uses the term "Designated Depository" in Section A of Procedure VII of the Rules to include an internal cross-reference to the definition of this term later in that Procedure.

Third, NSCC is proposing to revise a statement in Section C.4 of Procedure VII regarding the frequency of the recycle function of the CNS daytime allocation processing. Currently the statement accurately provides that the process is continual, but includes a phrase that states entries are effected every few minutes. Securities entries are effected at DTC on a continuous basis, which is more frequent than every few minutes. Therefore, NSCC is proposing to update this statement by removing the additional phrase.

Fourth, NSCC is proposing to revise a statement in Section B(ii) of Procedure II of the Rules that describes the types of trades that may be processed on a trade-for-trade basis.¹⁴ Section B(ii) of Procedure II of the Rules describes the processing of cash transactions, next day transactions (*i.e.*, transactions settling the day after execution), and seller's option transactions (*i.e.*, transactions that settle on the date determined by the seller). This section currently identifies the types of trades that may be processed on a trade-for-trade basis. The third and fourth types of trades in this list – trades in a security undergoing a corporate action and trades

¹⁴ Certain trades submitted to NSCC for clearance and settlement are not eligible for processing through the CNS System and are processed on a trade-for-trade basis. Such trades settle outside of NSCC's facilitates.

scheduled to settle between a dividend ex-date and record date – are applicable only to trades in CNS Securities. NSCC is proposing to revise this sentence to make this clarification.

Finally, NSCC is proposing to revise a statement in Section C.4 of Procedure VII that Members are notified of settlement activity through issued tickets. While the description of the notification to Members is still accurate, the terminology referring to tickets is outdated. Therefore, NSCC is proposing to update these statements to refer more generally to output, which would more accurately describe the reports and other online notifications NSCC provides to its Members regarding settlement activity.

(b) Statutory Basis

NSCC believes that the proposed changes are consistent with 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, for the reasons described below.¹⁵ The CNS System is NSCC's core service for the clearance and settlement of eligible securities transactions. As described above, the proposed rule changes would allow Members to more readily understand their rights and obligations in connection with the use of NSCC's services by (1) enhancing the transparency of the Rules by adding more information, (2) simplifying the Rules by removing information that either does not provide Members with important information regarding their rights or obligations or that no longer describe current processing, and (3) revising statements to more clearly disclose to Members the operation of the applicable services. By improving the Rules in these ways, and allowing Members to more readily understand their rights and obligations in connection with the use of the CNS System, NSCC believes that the proposed changes would facilitate the functioning of the CNS System and NSCC's related services. As such, NSCC believes the proposed changes would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.¹⁶

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.¹⁷ As described above, the proposed rule change would improve the Rules by (1) enhancing the transparency of the Rules by adding more information, (2) simplifying the Rules by removing information that either does not provide Members with important information regarding their rights or obligations or that no longer describe current processing, and (3) revising statements to more clearly disclose to Members the operation of the applicable services. By doing so, the proposed changes would allow the Rules to better disclose all relevant and material aspects of the CNS System and the other services

¹⁵ 15 U.S.C. 78q-1(b)(3)(F).

¹⁶ Id.

¹⁷ 17 CFR 240.17Ad-22(e)(23)(i).

described therein. Therefore, NSCC believes the proposed rule changes are consistent with Rule 17Ad-22(e)(23)(i).¹⁸

4. Self-Regulatory Organization'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 are designed to improve Members' understanding of their rights and obligations with respect to the use of the CNS System and the other services described in the Rules that are subject to these proposed changes. These proposed changes would be applicable to all Members that utilize NSCC's services, and would not alter Members' rights or obligations.

The proposed rule changes to remove descriptions of processing that are no longer accurate would update the Rules to reflect NSCC's current practice and the longstanding operation of the related services. NSCC does not believe that these changes would alter the respective rights or obligations of NSCC or Members.

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

5. Self-Regulatory Organization'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.

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.¹⁹

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

(a) The proposed rule change is to take effect pursuant to paragraph A of Section 19(b)(3) of the Act.²⁰

(b) The proposal effects changes in NSCC's existing services that (i) do not adversely affect the safeguarding of securities or funds in the custody or control of NSCC or for which it is

¹⁸ Id.

¹⁹ 15 U.S.C. 78s(b)(2).

²⁰ 15 U.S.C. 78s(b)(3)(A).

responsible; and (ii) do not significantly affect the respective rights or obligations of NSCC or Members using the services, as the proposed changes would make clarifications and revisions to the procedures that describe the CNS System and other services, but would not change the operation of these services, as described above.²¹

(c) Not applicable.

(d) Not applicable.

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

The proposed rule changes are not based on the rules of another self-regulatory organization or of the Commission.

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.

²¹ 17 CFR 240.19b-4(f)(4).

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-NSCC-2018-006)

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Clarify and Update Certain Sections of the Rules

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on September __, 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 Act³ and Rule 19b-4(f)(4) thereunder.⁴ 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”)⁵ in order to clarify and update certain sections of the Rules, and to

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(4).

⁵ 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.

improve the transparency of those Rules and Members' understanding of NSCC's services, as described 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 revisions to certain Rules in order to clarify and update those Rules. The Rules that NSCC is proposing to revise generally relate to the processing of NSCC's Continuous Net Settlement ("CNS") system (described below), and include Rule 3 (Lists to Be Maintained), Rule 11 (CNS System), Procedure II (Trade Comparison and Recording Service) and Procedure VII (CNS Accounting Operation).

First, the proposed changes are designed to enhance the transparency of these Rules by adding information. Second, the proposed changes are designed to simplify these Rules by removing information that either (a) describes internal processing and does not provide Members with important information regarding the applicable service, or (b) no longer describes the current processing operation. Finally, the proposed changes would revise statements to more clearly disclose to Members the operation of the applicable service and, thereby, provide Members with a better understanding of their

rights and obligations, and NSCC's rights and obligations, in connection with the use of those services.

NSCC is also proposing to make certain technical changes to correct typographical errors, revise the wording of statements to improve their clarity and update the use of defined terms. Such changes would be made in the Rules cited above, as well as Rule 9 (Envelope Settlement Service).

Each of these proposed changes is described below.

(i) Overview of the CNS System

NSCC's core services are trade capture through its Universal Trade Capture ("UTC") system, and clearance and settlement through its CNS System. Trade capture, the first step in the clearance and settlement process, involves the daily receipt of trade data from over trading venues, including U.S. securities exchanges and automated trading facilities, and from Members submitting transaction data directly. That data is then compared or recorded.⁶ Trade comparison consists of validating and matching the buy and sell sides of a securities transaction, and results in a compared trade that is reported to Members.

Compared and recorded transactions in CNS Securities are processed in the CNS System.⁷ Under the CNS System, all eligible compared and recorded transactions for a

⁶ NSCC's trade comparison and recording services are described in Rule 7 and Procedure II of the Rules. Supra note 5. Over 99% of all trade data is submitted to NSCC on a "locked-in" basis, meaning that it is already compared by the marketplace of execution. When submitted, locked-in trades are validated and recorded, via NSCC's UTC system, and reported to Members.

⁷ "CNS Security" is further defined in Rule 1 of the Rules, and the list of eligible CNS Securities is described in Rule 3 of the Rules. Supra note 5. Pursuant to the Rules, a CNS Security must be eligible for book-entry transfer on the books of DTC, and must be capable of being processed in the CNS System; for example,

particular settlement date are netted by issue into one net long (buy), net short (sell) or flat position per Member.⁸ 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 two days after trade date), so that trades scheduled to settle on any day are netted with fail positions to result in a single deliver or receive obligation for each Member for each issue in which it has activity. NSCC becomes the contra-party for settlement purposes, assuming the obligation of its Members that are receiving securities to receive and pay for those securities, and the obligation of Members that are delivering securities to make the delivery.

CNS relies on an interface with NSCC's affiliate, The Depository Trust Company ("DTC"), for the book-entry movement of securities to settle transactions. CNS short positions are compared against Members' DTC accounts to determine availability of securities for delivery. If securities are available, they are transferred from the Member's account at DTC to NSCC's account at DTC to cover the Member's short obligations to CNS. To control the automatic delivery of securities from their DTC accounts (for example, to prevent the automatic delivery of customer fully-paid securities), Members can use CNS exemption procedures, as described in Section D of Procedure VII of the Rules.

The allocation of CNS long positions to receiving Members is processed in an order determined by an algorithm built into the system. Securities are automatically

securities may be ineligible for CNS processing due to certain transfer restrictions (e.g., 144A securities) or due to the pendency of certain corporate actions.

⁸ The CNS System and the CNS Accounting Operation is described in Rule 11 and Procedure VII of the Rules. Supra note 5.

allocated to Members' long positions as the securities are received by NSCC. Members can request that they receive priority for some or all issues on a standing or override basis, as described in Section D of Procedure VII of the Rules. Submission of buy-in notices (described in Section J of Procedure VII of the Rules) and other specified activity will also affect the priority of a Member's long position.

Daily money settlement for CNS activity is based on the value of all settled positions plus or minus mark-to-the-market amounts for all open CNS positions, and occurs through NSCC. Such settlement amounts may include, for example, adjustments for applicable interest or dividend payments on a Member's positions in a CNS Security. The CNS deliveries made through DTC are made free of payment.

(ii) *Proposed Changes to Enhance Transparency of the Rules*

NSCC is proposing changes that would add more information to the Rules in order to enhance the transparency of those Rules.

a. Improve Disclosures Regarding Cleared Securities List

Rule 3 of the Rules describes the lists maintained by NSCC that include, for example, securities that are eligible to be cleared through its facilities (defined in the Rules as "Cleared Securities").⁹ This Rule also describes the bases for removing a security from these lists. Currently, Section 1(a) of Rule 3 of the Rules states that a security may be removed from the list of Cleared Securities if, for example, it has been suspended from trading pursuant to Section 12(k) of the Act.¹⁰ NSCC is proposing to

⁹ Supra note 5.

¹⁰ See 15 U.S.C. 78l(k). Section 12(k) of the Act authorizes the Commission to summarily suspend trading in a security if, in the Commission's opinion, the public interest and the protection of investors so require.

update this sentence to also provide that a security may be removed from the list of Cleared Securities if it has been suspended from trading pursuant to Section 12(j) of the Act.¹¹ Both Sections 12(k) and (j) of the Act could cause the suspension of trading a security, which would cause such security to be removed from the list of Cleared Securities. Therefore, NSCC believes that the proposed change would provide Members with improved transparency regarding the possible circumstances under which a security may no longer be eligible to be processed by NSCC.

b. Relocate Sentence Regarding CNS Security Eligibility

NSCC is proposing to move a statement regarding the circumstances in which a Cleared Security may be removed from the list of CNS Securities from Section 10 of Rule 11 of the Rules to Section 1(b) of Rule 3 of the Rules. Currently, Section 1(b) of Rule 3 of the Rules states generally that NSCC may, from time to time, add Cleared Securities to, or remove Cleared Securities from, this list of CNS Securities. The sentence in Section 10 of Rule 11 of the Rules identifies some of the circumstances when NSCC may determine to remove a Cleared Security from this list. NSCC believes the proposed change to move this statement to Rule 3 of the Rules would improve the transparency of the Rules. In connection with this change, and to further enhance the transparency of the Rules, NSCC is also proposing to add to this statement that a Cleared Security may be removed from the list of CNS Securities if NSCC determines that maintaining such security on the list of CNS Securities may pose additional risk to NSCC or its Members. NSCC believes that this proposed change would be consistent with

¹¹ See 15 U.S.C. 78l(j). Section 12(j) of the Act authorizes the Commission to revoke the registration of a security if the issuer fails to comply with the federal securities laws.

NSCC's general discretion to remove Cleared Securities from the list of CNS Securities, and would provide Members with additional transparency regarding the circumstance when this may occur.

c. Improve Disclosures Regarding Information that May be Required by Envelope Settlement Service

NSCC provides its Members with a service through which it may accept physical envelopes in connection with delivery and receipts of securities, money settlements, or claims for dividends and interest, as described in Rule 9 of the Rules. Currently, Section 1.3 of Rule 9 states that all envelopes delivered through this service must be accompanied by any information NSCC may require from time to time. NSCC is proposing to update this sentence to state that such information may include, when applicable, information regarding certifications from the Office of Foreign Assets Control ("OFAC"). In 2007, NSCC provided its Members with notice that it would require Members to identify any applicable OFAC certifications within envelopes delivered through this service.¹² The proposed change would improve the transparency of the Rules by including this requirement as an example of the type of information NSCC may require under Rule 9 of the Rules.

d. Improve Disclosures Regarding Dividend and Distribution Payments and Debits on CNS Securities

Currently, Section 8(a) of Rule 11 of the Rules describes how NSCC reports to Members that it has received notice from an issuer that a stock or cash dividend has been declared on a CNS Security in which such Members have either long or short positions. Section 8(a) of Rule 11 and Section G of Procedure VII of the Rules both further describe

¹² See Important Notice A#6384, P&S#5954, dated January 23, 2007, [available at http://www.dtcc.com/~media/Files/pdf/2007/1/23/A6384.pdf](http://www.dtcc.com/~media/Files/pdf/2007/1/23/A6384.pdf).

how such Members are either debited or credited the appropriate amounts on the payable date of an applicable dividend or other distribution. NSCC is proposing to update the Rules to clarify that, when a dividend or distribution is subject to non-U.S withholding taxes, the amount debited or credited, as appropriate, may be adjusted to reflect applicable taxes at a rate determined by NSCC in its sole discretion.¹³ While Section G of Procedure VII of the Rules currently discloses that NSCC would apply the *appropriate* credit or debit on the payable date, the proposed changes would further disclose this adjustment that may be made to that credit or debit when applicable. NSCC believes that the proposed rule change would improve the transparency of the Rules.

(iii) Proposed Changes to Update and Simplify the Rules

NSCC is proposing to simplify the Rules by, for example, removing descriptions of internal processing that, NSCC believes, do not provide Members with important information regarding the use of NSCC's services, and by updating descriptions to reflect existing processes. These proposed changes would make the Rules clearer and more easily understood by Members.

a. Remove Description of Requirement that Envelopes Include Duplicate Credit Lists

Currently, Section 1.3 of Rule 9 of the Rules, which describes the Envelope Settlement Service, states that Members must include in envelopes duplicate credit lists. This service is now automated and, in practice, NSCC would generate a copy of a credit list if one is not provided. Therefore, NSCC is proposing to remove the reference to the

¹³ In practice, NSCC would generally apply the tax treaty rate that is also applied by DTC.

duplicate credit list in order to remove the requirement that a duplicate credit list be provided and to update the Rules to reflect current practice.

b. Remove Descriptions of Processing of Securities with Exercise Privileges

NSCC is proposing to remove Section 11 of Rule 11 and Section K of Procedure VII of the Rules, which describe the process by which a Member may submit to NSCC a notice regarding an exercise privilege, and how that notice would subsequently be processed by NSCC. For at least the past 10 years, NSCC has not received any Notices of Intention to Exercise with respect to the exercise of a conversion, warrant or right attached to a security. Additionally, NSCC has generally exercised the discretion provided under Section H of Procedure VII and declined to process conversion events through the CNS Reorganization Processing System.¹⁴ In practice, NSCC does not process the exercise of a conversion, warrant or right and it exits securities from the CNS System if these applicable privileges are exercised during the settlement cycle.¹⁵

While this proposed change would revise the Rules as written, the change would not result in any change to current practice. Rather, the proposed change would reflect NSCC's longstanding practice to remove these securities from the CNS System. As such, NSCC does not believe this change would alter the respective rights or obligations

¹⁴ See Securities Exchange Act Release No. 83654 (July 17, 2018), 83 FR 34901 (July 23, 2018) (SR-NSCC-2018-003), which approved NSCC's proposal to enhance the Rules related to the CNS Reorganization Processing System, including by removing Section H, 5 of Procedure VII of the Rules, which described the special processing rules that applied to a conversion event for convertible securities.

¹⁵ After these securities are exited from CNS, the exercise of a conversion, warrant or right occurs bilaterally, away from NSCC.

of NSCC or Members using this service. NSCC believes this proposed change would mitigate any confusion by Members regarding the availability of this service.

c. Remove Descriptions of Internal Processing in the CNS System

Currently, Section C.1 of Procedure VII of the Rules describes how NSCC's records are updated internally each day to reflect the results of netting through the CNS System. The end of this section includes two sentences regarding indicators that are applied by the CNS System reflecting where positions are subject to exemptions from delivery, requests for priority allocation, or buy-ins.¹⁶ These indicators are applied within the CNS System to facilitate the settlement process. NSCC is proposing to remove these sentences from this Section because it does not believe they provide Members with important information regarding their rights and obligations, or NSCC's rights and obligations, in connection with this service. NSCC believes that the proposed change would simplify the Rules, making them clearer to Members.

(iv) Proposed Changes to Update and Revise the Rules

NSCC is proposing to update and revise certain statements in the Rules in order to make them clearer and more transparent and, thereby, provide Members with a better understanding of their rights and obligations, and NSCC's rights and obligations, in connection with the use of NSCC's services.

¹⁶ Members can submit instructions to influence the priority of certain positions in the CNS allocation process, and can also submit instructions to exempt certain positions from delivery in CNS, as described in Sections D and E of Procedure VII. Supra note 5. Additionally, Members with long positions that have failed may notify NSCC of their intent to purchase or "buy-in" those securities, which causes those positions to have high priority in CNS allocations, as described in Section J of Procedure VII. Id.

a. Revise Statements Regarding Members' Priority Requests for Receipt of Securities

As provided for in Section E of Procedure VII of the Rules, Members may submit to NSCC requests regarding the priority of CNS allocation for their positions. Currently, a statement in Section A of Procedure VII and the title of Section E of Procedure VII of the Rules state that such requests would “control” the priority of positions in this allocation process. NSCC is proposing to revise this statement and the title to Section E of Procedure VII of the Rules to make clear that priority requests from Members would *influence*, but may not control, the priority of positions in the CNS allocation process. For example, a priority request may not control the receipt of positions in the CNS allocation process when a Member submits a request for a low priority, but has the only long position in that security on that settlement date. In this example, the Member would be allocated that security as the highest (and only) priority in the allocation process. Therefore, NSCC believes that the proposed change would revise the Rules to more clearly describe the effect of these priority requests.

b. Revise Statement Regarding Credit / Debit of Dividends, Interest and Stock Splits

Currently, Section A of Procedure VII of the Rules states that dividends and interest on Members' positions in CNS Securities are credited or debited to Members' accounts according to the security positions that exist on record date. NSCC is proposing to revise this statement to remove reference to payments or debits of interest, and to add a new, parallel sentence to Section A of Procedure VII of the Rules that states interest is credited or debited to the Members' accounts according to the security positions that exist on the day prior to the payable date, and that stock splits are credited or debited to the Members' accounts according to the security positions that exist on due bill redemption

date. In connection with this change, NSCC is proposing to add a cross reference to Section G of Procedure VII of the Rules, where these credits and debits are more fully described. NSCC believes that this proposed change would more clearly describe the security position on which NSCC would apply an applicable debit or credit and, thereby, would improve the clarity and transparency of the Rules.

c. Revise Rules Regarding Exemption Instructions in Delivery of CNS Securities

Currently, Section D of Procedure VII of the Rules describes the process by which Members may submit instructions to NSCC to indicate which short positions they do not wish to settle and should be exempt from delivery. NSCC is proposing revisions to certain statements within this section to more clearly describe Members' rights and obligations with respect to this service.

First, NSCC is proposing to revise statements in this section to make clear that Members are required to submit instructions for any delivery exemptions to be applied. The proposed changes would clarify this rule by revising a statement regarding the application of the One Day Settling Exemption in the introduction paragraph of Section D of Procedure VII of the Rules. The One Day Settling Exemption is applicable to transactions that are compared or received by NSCC on the day prior to settlement day or thereafter. Currently, the Rules state that this delivery exemption is applied automatically. While NSCC works with all new Members in setting delivery exemptions during onboarding, and instructs new Members to set the One Day Settling Exemption, as required by the Rules, all delivery exemption instructions must be applied through the affirmative action of Members and none are applied automatically.

Second, NSCC is proposing to remove an incorrect statement from Section D.2(c) of Procedure VII of the Rules that NSCC assigns a delivery exemption if no standing or specific exemption instructions are present. Members are required to submit exemptions for each of their respective CNS sub-accounts, as currently stated in the Rules and as described above. Further, setting these delivery exemptions is a part of the NSCC onboarding process for all new Members. Therefore, it is unlikely that no standing or specific delivery exemptions would be present. If, however, no delivery exemption is present for some reason, then none would be applied. Therefore, the proposed change would revise the Rules to remove this statement, which does not describe current processing.

Finally, NSCC is proposing to remove a statement from Section D.2(b)(iv) of Procedure VII of the Rules that states if a Member is allocated securities from one CNS account, those securities override a delivery exemption placed on the short position in its other CNS account. NSCC has confirmed that the allocation of securities from a CNS account of a Member would not override any delivery exemptions in its other CNS account. Therefore, this sentence does not accurately describe the current processing. The proposed change would remove this sentence from the Rules.

d. Revise Statements Regarding Members' Use of the Accounting Summary and Cash Reconciliation Statement Reports

Section F of Procedure VII of the Rules describes two reports that NSCC provides to its Members regarding their CNS activity – the Accounting Summary and the Cash Reconciliation Statement Report. Currently, Section F.2 of Procedure VII of the Rules states that, while the Accounting Summary report constitutes the official record of that Members' CNS activity, because this report is produced later in the day, Members may

utilize the Cash Reconciliation Statement Reports to determine their money settlement obligations. Today, in addition to continued delivery of such reports directly to Members, the information provided on the Cash Reconciliation Statement Reports, as well as other information regarding their CNS activity and settlements, is also available to Members through the CNS Dashboard on the DTCC web portal throughout the day.¹⁷ Therefore, NSCC is updating its Rules to revise this statement, because, due to the additional availability of this information online, it is not necessary to recommend to Members that they may use the Cash Reconciliation Statement Reports to determine their money settlement obligations.

In connection with this change, NSCC would move a statement that the Accounting Summary report constitutes the official record of that Member's CNS activity to the beginning of Section F.2 of Procedure VII of the Rules. By moving this statement to the section that describes the Accounting Summary, NSCC believes that the proposed change would make the Rules clearer to Members.

Finally, NSCC would revise Section F.1 of Procedure VII of the Rules to remove reference to Clearing Fund information in the description of the type of information that may be available on the Accounting Summary. Clearing Fund information is not included in the Accounting Summary report. Therefore, this proposed change would update the Rules to correct this statement and clarify the information that is available on this report. NSCC believes that the proposed change would improve Members' understanding of the availability of information related to their CNS activity.

¹⁷ See Important Notice A#8357, P&S# 7932, dated March 23, 2017, announcing the Clearing Dashboard and CNS web screens within the DTCC web portal, available at <http://www.dtcc.com/~media/Files/pdf/2017/3/23/a8357.pdf>

(v) ***Proposed Technical Changes and Corrections the Rules***

NSCC is proposing to make certain technical revisions and corrections to the Rules that would, for example, correct typographical errors, update terms to more clearly describe a current process, and revise the use of defined terms.

First, NSCC is proposing to remove a typographical error from Section 1.2 of Rule 9 of the Rules, where an incomplete sentence was inadvertently added to the Rules.

Second, NSCC is proposing to revise Section 9 of Rule 11 of the Rules to replace references to DTC, with the defined term, “Qualified Securities Depository.” Although DTC does meet the definition of a Qualified Securities Depository, NSCC believes this proposed change would improve the clarity to use the applicable defined term. In a related change, NSCC is also proposing to update a sentence that uses the term “Designated Depository” in Section A of Procedure VII of the Rules to include an internal cross-reference to the definition of this term later in that Procedure.

Third, NSCC is proposing to revise a statement in Section C.4 of Procedure VII regarding the frequency of the recycle function of the CNS daytime allocation processing. Currently the statement accurately provides that the process is continual, but includes a phrase that states entries are effected every few minutes. Securities entries are effected at DTC on a continuous basis, which is more frequent than every few minutes. Therefore, NSCC is proposing to update this statement by removing the additional phrase.

Fourth, NSCC is proposing to revise a statement in Section B(ii) of Procedure II of the Rules that describes the types of trades that may be processed on a trade-for-trade

basis.¹⁸ Section B(ii) of Procedure II of the Rules describes the processing of cash transactions, next day transactions (*i.e.*, transactions settling the day after execution), and seller's option transactions (*i.e.*, transactions that settle on the date determined by the seller). This section currently identifies the types of trades that may be processed on a trade-for-trade basis. The third and fourth types of trades in this list – trades in a security undergoing a corporate action and trades scheduled to settle between a dividend ex-date and record date – are applicable only to trades in CNS Securities. NSCC is proposing to revise this sentence to make this clarification.

Finally, NSCC is proposing to revise a statement in Section C.4 of Procedure VII that Members are notified of settlement activity through issued tickets. While the description of the notification to Members is still accurate, the terminology referring to tickets is outdated. Therefore, NSCC is proposing to update these statements to refer more generally to output, which would more accurately describe the reports and other online notifications NSCC provides to its Members regarding settlement activity.

2. Statutory Basis

NSCC believes that the proposed changes are consistent with 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, for the reasons described below.¹⁹ The CNS System is NSCC's core service for the clearance and settlement of eligible securities transactions. As

¹⁸ Certain trades submitted to NSCC for clearance and settlement are not eligible for processing through the CNS System and are processed on a trade-for-trade basis. Such trades settle outside of NSCC's facilities.

¹⁹ 15 U.S.C. 78q-1(b)(3)(F).

described above, the proposed rule changes would allow Members to more readily understand their rights and obligations in connection with the use of NSCC's services by (1) enhancing the transparency of the Rules by adding more information, (2) simplifying the Rules by removing information that either does not provide Members with important information regarding their rights or obligations or that no longer describe current processing, and (3) revising statements to more clearly disclose to Members the operation of the applicable services. By improving the Rules in these ways, and allowing Members to more readily understand their rights and obligations in connection with the use of the CNS System, NSCC believes that the proposed changes would facilitate the functioning of the CNS System and NSCC's related services. As such, NSCC believes the proposed changes would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.²⁰

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.²¹ As described above, the proposed rule change would improve the Rules by (1) enhancing the transparency of the Rules by adding more information, (2) simplifying the Rules by removing information that either does not provide Members with important information regarding their rights or obligations or that no longer describe current processing, and (3) revising statements to more clearly disclose to Members the operation of the applicable services. By doing so, the proposed changes would allow the Rules to better

²⁰ Id.

²¹ 17 CFR 240.17Ad-22(e)(23)(i).

disclose all relevant and material aspects of the CNS System and the other services described therein. Therefore, NSCC believes the proposed rule changes are consistent with Rule 17Ad-22(e)(23)(i).²²

(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 are designed to improve Members' understanding of their rights and obligations with respect to the use of the CNS System and the other services described in the Rules that are subject to these proposed changes. These proposed changes would be applicable to all Members that utilize NSCC's services, and would not alter Members' rights or obligations.

The proposed rule changes to remove descriptions of processing that are no longer accurate would update the Rules to reflect NSCC's current practice and the longstanding operation of the related services. NSCC does not believe that these changes would alter the respective rights or obligations of NSCC or Members.

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.

²²

Id.

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 Act²³ and paragraph (f) of Rule 19b-4 thereunder.²⁴ 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.

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-2018-006 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-2018-006. This file number should be included on the subject line if e-mail is used. To help the Commission process

²³ 15 U.S.C. 78s(b)(3)(A).

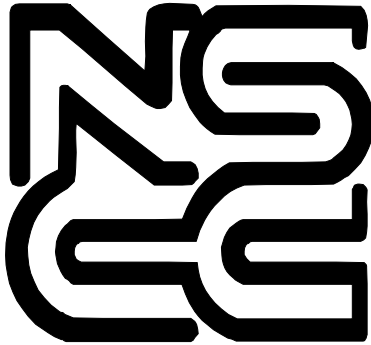
²⁴ 17 CFR 240.19b-4(f).

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-2018-006 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.²⁵

Secretary

²⁵ 17 CFR 200.30-3(a)(12).



NATIONAL
SECURITIES
CLEARING
CORPORATION

RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

Bold and underlined text indicates proposed added language.

~~Bold and strikethrough~~ text indicates proposed deleted language.

RULE 3. LISTS TO BE MAINTAINED

SEC. 1. (a) The Corporation shall maintain a list of the securities which may be the subject of contracts cleared through the Corporation (hereinafter referred to as "Cleared Securities"), and may from time to time add securities to such list or remove securities therefrom. Unless the Corporation shall otherwise determine, Cleared Securities may only be those issues of securities the issuer of which is subject to, or regularly complies with, Rule 10b-17 of the Securities and Exchange Commission, promulgated pursuant to the Securities Exchange Act of 1934, as amended. The Corporation shall accept an issue of securities as a Cleared Security only upon a determination by the Corporation that it has the existing operational capability to do so and to continue successfully to provide its services to Members.

A Cleared Security that the Corporation in its discretion determines no longer meets the requirements imposed pursuant to this Section 1 shall cease to be a Cleared Security. In addition, the Corporation may determine that a Cleared Security shall cease to be a Cleared Security in the event that: (1) such Cleared Security shall have been suspended from trading in the over-the-counter market or on any national securities exchange by the Securities and Exchange Commission pursuant to Section 12(k) **or (j)** of the Securities Exchange Act of 1934, as amended, or has been suspended from trading by another regulatory authority or by a self-regulatory organization (as defined in Section 3(a)(26) of the Securities Exchange Act of 1934, as amended), which has authority to suspend such activity; or (2) the Corporation finds that the level of activity in the security during the period of three consecutive months preceding that determination is insufficient to produce benefits commensurate with the costs to the Members arising from its continued inclusion as a Cleared Security; or (3) the Corporation determines that there may exist a legal impediment to the validity or legality of the issuance or continued transfer or delivery of the security; or (4) the Corporation determines, after discussion with the appropriate marketplace regulator, where possible, that continued clearance and settlement by the Corporation presents unacceptable risks to the Corporation and/or its participants; or (5) the Corporation determines that the location of the transfer agent(s) for the security or such transfer agent's capability for reissuing certificates for the security is such as to impair the efficient operation of clearing procedures.

(b) The Corporation shall also maintain a list of Cleared Securities that are eligible for book-entry transfer on the books of each Qualified Securities Depository and are subject to clearance and settlement in the CNS System and may from time to time add Cleared Securities to such list or remove Cleared Securities therefrom.

A Cleared Security shall be removed from the list of CNS Securities upon receipt by the Corporation of written notice from a Qualified Securities Depository that the security is no longer eligible under its rules for transfer by book-entry. A Cleared Security may be removed from the list of CNS Securities, for example, if in the judgment of the Corporation Members may lose important rights or additional risk may be presented to the Corporation or its Members by reason of

its continued status as a CNS Security. Any such removal shall be promptly communicated to all Members by the Corporation.

* * *

RULE 9. ENVELOPE SETTLEMENT SERVICE

SEC. 1. General

The Corporation may, at its facilities (at those locations as it may determine from time to time as announced via Important Notice) offer a service, to be known as the Envelope Settlement Service (“ESS”), through which it may receive envelopes, of the type approved by the Corporation, from Members (each, a “delivering Member”) addressed to Members (each, a “receiving Member”) on business days. The services offered by the Corporation through ESS will include the processing and settlement of: (a) security deliveries and receives and associated charges, (b) money-only settlement-related charges, and (c) claims for dividends and interest, each of which has been submitted by Members in accordance with the provisions of these Rules. Such envelopes will be sorted and made available, at the same facility where received by the Corporation, to the authorized representatives of the Members to whom they are addressed as provided in this Section 1. The delivery of envelopes and the related processing of payments by the Corporation are not guaranteed services of the Corporation and are subject to reversal as provided in Section 4 of this Rule.

1. Deliveries of envelopes to the Corporation shall be made in accordance with the schedule from time to time specified by the Corporation.
2. An envelope delivered to the Corporation shall contain only such securities as permitted by the Corporation from time to time; tickets relating to such securities contained in the envelope; or such other items as the Corporation may from time to time permit, including but not limited to, documentation by a delivering Member necessary for the receiving Member to identify the reason for a money-only charge, and notices of intent and claim forms associated with claims for dividends and interest. ~~Envelopes which contain items.~~ Envelopes which contain securities other than as permitted by the Corporation are subject to return by the Corporation to the delivering Member and the related credit and debit of the payment amount therefor may be reversed in accordance with Section 4 of this Rule.
3. The envelopes shall be accompanied by a credit list, ~~in duplicate~~, in such form prescribed by the Corporation. The credit list shall list each of the envelopes delivered with it and shall show the number of the Member to whom each envelope is addressed and the total money value, if any, of the items contained in that envelope, and each credit list shall be totaled. In addition, the envelopes must be accompanied, in such format as prescribed by the Corporation, with an indicator as to whether or not the envelope contains a security. Where an envelope contains a security, the delivering Member must provide the Corporation with identifying information with respect to the security (including CUSIP or ISIN), and quantity.

Securities may not be comingled in the same envelope with other items permitted by the Corporation to be processed through ESS. The Corporation may also: (a)

prohibit comingling of any variety of items in a single envelope, and (b) limit the number of envelopes that may be submitted per credit list, as it determines from time to time. However, a Member may deliver no more than one security (defined by CUSIP or ISIN) per envelope. All envelopes delivered through ESS must also be accompanied with such other information as required by the Corporation from time to time, **including, when applicable, information regarding OFAC certification.**

* * *

RULE 11. CNS SYSTEM

* * *

SEC. 8. After receipt of notice by the Corporation that the issuer of a CNS Security has declared a stock or cash dividend on such security or has authorized a stock-split or a distribution of rights or other property with respect to a CNS Security, the Corporation will issue a Record Date Report which will show each Member's record date Long or Short Position in the security at the close of business on the Record Date (herein called "Record Date Position").

(a) On the payable date for a cash dividend (or, if the payable date is not a settlement day, then on the settlement day immediately following such payable date) each Member shall be obligated to pay an amount equal to the dividend on any Short Position included in the Member's Record Date Position and shall be entitled to receive an amount equal to the dividend on any Long Position included in the Member's Record Date Position. **Such amounts, when debited or credited, as appropriate, may be adjusted as provided for under Section G of Procedure VII.**

* * *

SEC. 9. A trade in a CNS Security or Balance Order Security may be designated a Special Trade in which case it will be cleared and settled on a Member-to-Member basis; the parties to the Special Trade shall notify the Corporation at the time and in manner specified in the Procedures, and the Corporation shall issue receive and deliver security orders in respect thereof, which orders shall be settled by the parties directly. To the extent such Special Trade is for a security that is eligible for book-entry transfer on the books of **DTCa Qualified Securities Depository**, and the deliverer has filed with the Corporation a standing instruction, the Corporation will issue an instruction on file to **DTCa Qualified Securities Depository** specifying the quantity of such security to be delivered from the deliverer to the receiver and the money settlement amount related thereto. The Corporation may enter obligations arising from such Special Trades into the Obligation Warehouse service in accordance with timeframes as determined by the Corporation from time to time.

SEC. 10. ~~A CNS Security shall be removed from the list of CNS Securities upon receipt by the Corporation of written notice from a Qualified Securities Depository that the security is no longer eligible under its rules for transfer by book-entry. A CNS Security may be removed from the list of CNS Securities if in the judgment of the Corporation Members may lose important rights by reason of its continued status as a CNS Security. Any such removal shall be promptly communicated to all Members by the Corporation.~~ In ~~such the~~ event **a CNS Security is removed from the list of CNS Securities pursuant to Rule 3**, the Corporation shall, on the first settlement day on which such securities are not deliverable through the facilities of all Qualified Securities Depositories and on each subsequent settlement day for any CNS Contracts entered in the CNS Accounting Operation prior to the effective date of removal, or upon such removal, match with

respect to each such settlement day opening Short or Long Positions in such security in that manner which the Corporation in its discretion may provide, issue receive and deliver security orders in respect thereof for any such day, which orders shall have the same status as security balance orders issued in connection with the Balance Order Accounting Operation and will be subject to those provisions of these Rules pertaining to such security balance orders unless otherwise specified by the Corporation and close out such positions in the CNS System.

~~SEC. 11. (a) A Member with a long position or a long Settling Trade position in a CNS Security to which an exercise privilege attaches who wishes to exercise that privilege (the "originator") may file with the Corporation, at or before the time specified in the Procedures, a Notice of Intention to Exercise in the form prescribed by the Procedures.~~

~~(b) In the event that the securities covered by the Notice of Intention to Exercise are not received by the originator prior to the time specified in the Procedures, the Corporation will remove the position from CNS and will remove a corresponding short position(s) representing the short Member(s) with the oldest position(s). The Corporation will issue, in the time specified in the Procedures, CNS receive and deliver instructions naming a failing to receive Member and a failing to deliver Member.~~

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PROCEDURE II. TRADE COMPARISON AND RECORDING SERVICE

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

* * *

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

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

* * *

PROCEDURE VII. CNS ACCOUNTING OPERATION

A. Introduction

The CNS Accounting Operation processes transactions in CNS Securities. Subject to the provisions of Procedure XVI, and for the purposes of this Procedure VII, references to CNS Securities shall include Eligible ID Net Securities.

Transactions in CNS Securities which are reported as compared or recorded on the various report output issued through such time on Settlement Date, as the Corporation may determine, and those submitted by Special Representatives, are reported on Consolidated Trade Summaries. The netted obligations are then entered into the CNS Accounting Operation.

CNS is an on-going accounting system which nets today's Settling Trades with yesterday's Closing Positions, producing new short or long positions per security issue for each Member. The Corporation is always the contra side for all positions. The positions are then passed against the Member's Designated Depository **(as defined in Section C of this Procedure, below)** positions and available securities are allocated by book-entry. This allocation of securities is accomplished through an evening cycle followed by a day cycle. Positions which remain open after the evening cycle may be changed as a result of trades accepted for settlement that day. Members may **control/influence** the receipt and delivery of their securities through the use of Exemptions (for deliveries) or Priorities (for receipts).

Money settlement is not associated with the individual security movements but is the result of comparing the Closing Money Balance to the Closing Net Market Value of the Member's CNS account.

Dividends ~~and interest~~ are credited or charged to the Member's account according to the security positions that exist on record date. The record date positions are automatically updated for "As-Of" trades and appropriate due bill activity. **Interest is credited or charged to the Member's account according to the security position that exists on the day prior to the payable date; and stock splits are credited or charged on the Member's account according to the security position that exists on due bill redemption date, as described in Section G of this Procedure.**

* * *

C. Receipt and Delivery of Securities

1. Stock Record Update

Each day, Settling Trades shown on the Consolidated Trade Summary are netted with the Closing Positions which have been carried forward from the previous day. The resulting net positions represent the quantity of each security due for settlement by the Member on Settlement Date. A long position represents the quantity owed to the Member by the Corporation (the Member's fail-to-

receive). A short position represents the quantity owed to the Corporation by the Member (the Member's fail-to-deliver). The Corporation is the contra side to all long and short positions. ~~Each long and short position contains an indicator identifying Exemptions, Priority Requests and Buy-Ins (see subsections D and E of this Section). These indicators do not alter positions or effect securities movement, but serve solely to control the settlement process.~~

2. Selection of Depository

Each Member must select a Qualified Securities Depository for purposes of CNS settlement (the Member's "Designated Depository"). All short positions must be satisfied by, and long positions allocated to, the Member's account at the Designated Depository.

3. Evening Cycle

After the procedures described in paragraph 1 have been completed, each Member's positions are passed to the Designated Depository. Subject to the limitations imposed by Exemptions (see subsection D) and Procedure XVI, securities are transferred from the Member's applicable Designated Depository account to satisfy its short positions. If the quantity on deposit is insufficient to settle the entire short position, a partial movement occurs. Securities received from Members in settlement of short positions are placed in the Corporation's applicable account at the Designated Depository. The Corporation then provides instructions to deliver those securities from its account at that depository to the Designated Depository accounts of those Members which have long positions.

The results of the evening allocation are recorded on the CNS Settlement Activity Statement distributed the following morning. All security movements in Designated Depositories are made on a "free" basis. Money settlement associated with such security movements is accounted for by the Corporation as a separate function. The Current Market Value of each entry is shown on the Settlement Activity Statement for informational purposes.

4. Day Cycle

Positions which remain open after the evening allocation, or become open as a result of subsequent activity, are recycled on the following day. As additional securities are made available in Members' Designated Depository accounts, additional receipts and deliveries are made against long and short positions. The daytime recycle functions essentially the same as the evening allocation except that the process is continual, ~~entries being effected every few minutes.~~

In order to notify Members of settlement activity as quickly as possible, Settlement Activity ~~tickets are output is~~ issued ~~periodically during throughout~~ the day. ~~These tickets are~~ This output is produced by the Designated Depository which actually made the entry to the Member's account, and ~~are is~~ made available to the Member shortly after the entry is made.

In addition, in order to notify Member of changes in their positions due to same day (including cash) settling trades or miscellaneous activity, the Corporation will make available information in respect of such activity and new net settling positions as a result thereof, in such form as the Corporation may determine.

At the end of the daytime recycle, all daytime activity is summarized on the CNS Settlement Activity Statement.

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, Members are required to provide instructions to exempt from delivery any** 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".

* * *

2. Exemptions

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

(a) Types of Exemption

The CNS system provides for two levels of Exemption. By proper use of the Projection Report and Exemptions, Members can utilize current inventory as well

as securities received from other sources on settlement day in order to satisfy delivery requirements.

(i) Level 1 Exemption - By submitting a Level 1 Exemption, the Member indicates that the portion of the short position exempted should not be automatically settled against its current Designated Depository position or against any securities which may be received into its Designated Depository account as a result of other depository activity.

(ii) Level 2 Exemption - The submission of a Level 2 Exemption is an instruction by the Member that the portion of the short position exempted should not be automatically settled against its current depository position. Such a position may be satisfied, however, by certain types of "qualified" activity in its Designated Depository account.

(b) Qualified Activity

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

(i) Coded Deposits - The Member deposits securities into its Designated Depository account in the normal manner, but by using a special deposit ticket which indicates that these securities are available for settling Level 2 Exemption quantities.

(ii) Coded Collateral Loan Releases - A Member may release securities from its Designated Depository collateral loan account and wish those securities to be used in settling a Level 2 Exemption quantity. In this case, the Member uses a special Collateral Loan Release form which authorizes such use.

(iii) Receipts from Banks - All securities received against payment from banks are eligible to settle Level 2 Exemption quantities. Settlement of such items is automatic and no special instruction by the Member is required.

(iv) Receipts from Member's Sub-Account - As a result of CNS sub-accounting (see subsection I of this Section), a Member may have a long position in a given security in one CNS account and a short position in the same security in another CNS account. Since both CNS accounts settle against a single Designated Depository Account, the Member may receive securities from itself. **~~If a Member is allocated securities from one CNS account, those securities will automatically override any Level 2 Exemption placed on the short position in its other CNS account.~~**

(c) Methods of Submitting Exemptions

Exemptions may be submitted by using such form or automated means as are acceptable to the Corporation from time to time. Exemptions must either indicate the quantity to be exempted, or indicate all, and designate that quantity as Level 1 or Level 2. A Member may submit daily Exemption instructions to the

Corporation. If a Member has no Exemptions on a given day, instructions may be submitted indicating no Exemptions for either Level 1 or Level 2.

A Member must submit standing Exemption instructions to the Corporation. Standing Exemption instructions will govern all of the Member's short positions for any day on which (i) specific daily Exemption instructions are not submitted to the Corporation, (ii) are not received by the Corporation, or (iii) are unable to be processed by the Corporation. ~~In the absence of such standing Exemption instructions or specific Exemption instructions for that day, the Corporation assigns a Level 1 Exemption to all short positions of that Member.~~

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

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

(d) Exemption Override

With respect to one day and same day settling transactions, Members may select a standing Exemption override to permit all such short positions to be delivered. Additionally, during the daytime cycle, a Member may override the One Day Settling Exemption as well as other Exemptions entered by the Member the previous evening. To do so, the Member should prepare a Delivery Order (DO) and submit it to its Designated Depository in the normal manner. If the Designated Depository is DTC, the receiving Member must be designated as 888.

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

E. ~~Controlling-Influencing~~ Receipts from CNS

* * *

F. Computation of CNS Money Settlement

The computation of the Net CNS Money Settlement Amount is based on the Accounting Summary and the Cash Reconciliation Statement. The Net CNS Money Settlement is then recorded in the Settlement Statement (described in Section VIII) and is netted with settlement obligations resulting from other services.

1. Accounting Summary

The Accounting Summary constitutes the official record of all CNS activity, positions and settlements. CNS accounting is completed with the issuance of an Accounting Summary at the end of the settlement day. This report is divided into two parts. The first part deals with CNS Stock Record security movements and positions; the second part summarizes money activity and balances. Security and money accounting are two distinct functions under CNS and are performed separately.

The part of the Accounting Summary which deals with security accounting shows the Member's Opening Position, Settling Trades, stock dividends and miscellaneous activity, receipts and deliveries, Closing Position, and Current Market Value of Closing Positions for each security in which it had a position or activity that day. The Current Market Value of closing long positions and closing short positions is totaled at the end of the report. The net of these two figures is the Net Market Value of the Member's account at the end of the day and represents the net value of securities which the Member owes to the Corporation or which the Corporation owes to the Member.

The last section of the Accounting Summary reflects the Member's Opening Money Balance, net money amounts for Settling Trades, cash dividends and interest, miscellaneous activity ~~which may include Clearing Fund calculations~~ and Closing Money Balance. The Closing Money Balance represents the net amount of money which the Member owes to the Corporation or which the Corporation owes to the Member.

The net CNS Money Settlement Amount is calculated by subtracting the Net Market Value from the Closing Money Balance. The effect of this calculation is to bring the Member's money balance into agreement with the market value of its Closing Positions.

The Accounting Summary is the final report produced by the CNS system for each Settlement Date. Members are required to reconcile all security and money balances shown thereon by comparing the Accounting Summary to their own records and promptly reporting any difference to the Corporation for reconciliation.

2. Cash Reconciliation Statement

~~**Although the Accounting Summary constitutes the official record of all CNS activity, positions and settlements, it is produced too late in the afternoon to be used by the Member to determine its money settlement obligations. In order for members to effect a timely settlement, Members are also provided with**~~ a separate report known as the Cash Reconciliation Statement ~~**is used for money calculation.**~~

Although the Cash Reconciliation Statement is a different method of computing the settlement amount arrived at on the Accounting Summary, it relies on the same concepts in that the value of Closing Positions is compared to the money balance for that day, the difference being the Member's money settlement amount. In the case of the Cash Reconciliation Statement, the money settlement is computed in the early morning and is continuously updated throughout the day cycle to reflect activity which takes place during the day. The Corporation will make such updated information available to Members throughout the day cycle in such manner as it may from time to time determine.

The results of the daytime delivery cycle are summarized on a Settlement Activity Statement issued on the afternoon of Settlement Date. Each entry is valued at the Current Market Price with totals at the end of the report. These totals must be posted by the Member to the Cash Reconciliation Statement. When these totals are netted with the preliminary figure shown on the report, the result will be the final Net CNS Money Settlement Amount.

A final Cash Reconciliation Statement is issued on the afternoon of each settlement day, and shows all information shown on the Preliminary Cash Reconciliation Statement updated for daytime activity to arrive at a final settlement amount.

G. CNS Dividend Accounting

Dividend Accounting within the CNS system is based primarily on the Member's Closing Position on the record date for the dividend, distribution, etc. Cash dividends, stock dividends, spinoffs, etc. are calculated and reported to the Member on the morning after record date. On payable date, the appropriate debit or credit is applied to the Member's CNS account. In the case of a non-U.S. sourced dividend or other income distribution, such debit or credit may be adjusted for any applicable non-U.S. withholding taxes at a rate to be determined by the Corporation in its sole discretion.

* * *

~~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+1.~~

~~A Member with a long position or a long Settling Trade position in a security to which an exercise privilege attaches may submit to the Corporation a Notice of Intention to Exercise ("Exercise Notice") specifying a quantity of securities not exceeding such long position or long Settling Trade position, excluding one day settling positions, which it intends to exercise ("Exercise Position") by the time~~

~~and in a manner established by the Corporation. (Hereinafter such Member is referred to as the "originator".) For the purpose of this subsection, the day the Exercise Notice is submitted is referred to as N, and N+1 refers to the succeeding day. Each day commences in the evening and includes an evening allocation of securities and a daytime allocation.~~

~~If an Exercise Position remains unfilled after the daytime allocation on N, the Corporation will remove this position from CNS and will remove a corresponding short position or positions representing those short Members with the oldest position(s) in an aggregate quantity at least equal to the Exercise Position. Age is defined as the number of consecutive days during which the position has been short, irrespective of quantity. If the Members in an age group needed to satisfy the Exercise Position have a greater quantity of short positions than is needed, positions will be removed on a random basis. The Corporation will issue and make available CNS receive and deliver instructions on the morning of N+1 naming a failing to deliver Member and the originator. The failing to deliver Member shall be liable to the originator for any damages that result from the originator's inability to exercise the security. All claims for such damages shall be made promptly. Liability of the failing to deliver Member shall continue even though exercises of the security may be temporarily suspended. Notwithstanding the foregoing, if the failing to deliver Member is able to deliver the security in sufficient time to allow timely delivery of the security to the tender agent, the liability may be satisfied by delivery of the Exercise Position.~~