

Required fields are shown with yellow backgrounds and asterisks.

Filing by National Securities Clearing Corporation  
 Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	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 \*).  
 Amend Procedure VII with Respect to the Receipt of CNS Securities and Make Other Changes

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

First Name \* Rosa      Last Name \* Chang  
 Title \* Executive Director and Associate General Counsel  
 E-mail \* rchang1@dtcc.com  
 Telephone \* (212) 855-4985      Fax

**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 07/22/2019      Managing Director and Deputy General Counsel  
 By Nikki Poulos      npoulos@dtcc.com  
 (Name \*)

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

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 \***

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

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

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

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

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Exhibit Sent As Paper Document

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

## 1. Text of Proposed Rule Change

(a) The proposed rule change of National Securities Clearing Corporation (“NSCC”) is attached hereto as Exhibit 5. The proposed rule change would amend Procedure VII (CNS Accounting Operation) of the NSCC Rules & Procedures (“Rules”)<sup>1</sup> with respect to the receipt of securities from NSCC’s Continuous Net Settlement (“CNS”) System<sup>2</sup> and make technical changes, as described in greater detail below.

(b) Not applicable.

(c) Not applicable.

## 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Businesses, Technology and Operations Committee of NSCC’s Board of Directors on June 11, 2019.

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

### (a) Purpose

The purpose of this proposed rule change is to amend Procedure VII (CNS Accounting Operation) with respect to the receipt of securities from the CNS System in order to reflect a change in the allocation algorithm used during the night cycle.<sup>3</sup> The proposed rule change would also make technical changes.

#### (i) BACKGROUND

NSCC’s CNS System is an automated accounting and securities settlement system that centralizes and nets the settlement of compared and recorded securities transactions and maintains an orderly flow of security and money balances. The CNS System provides clearance for equities, corporate bonds, unit investment trusts, and municipal bonds that are eligible for book-entry transfer at The Depository Trust Company (“DTC”), an NSCC affiliate.

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<sup>1</sup> Capitalized terms not defined herein are defined in the Rules, available at [http://www.dtcc.com/~media/Files/Downloads/legal/rules/nsccl\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/nsccl_rules.pdf).

<sup>2</sup> The CNS System and its operation are described in Rule 11 (CNS System) and Procedure VII (CNS Accounting Operation) of the Rules. Id.

<sup>3</sup> Night cycle is sometimes also referred to as “evening cycle” in the Rules. To ensure consistent terminology usage, NSCC is proposing technical changes to replace references to “evening cycle” with “night cycle” as described in greater detail below.

Under the CNS System, all eligible compared and recorded transactions for a particular settlement date are netted by CUSIP<sup>4</sup> number into one position per Member. The position can be net long (buy), net short (sell) or flat. As a continuous net system, those positions are further netted with positions of the same CUSIP number that remain open after their original scheduled settlement date (usually two business days after the trade date or T+2), so that transactions scheduled to settle on any day are netted with fail positions (i.e., positions that have failed in delivery or receipt on the settlement date), which results in a single deliver or receive obligation for each Member for each CUSIP number in which the Member has activity.

CNS relies on an interface with DTC for the book-entry movement of securities. Procedure VII (CNS Accounting Operation) describes the receipt and delivery of CNS Securities. 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. In contrast, the allocation of CNS long positions to receiving Members is processed in an order determined by an algorithm built into the system. CNS long positions are allocated to Members as the securities are received by NSCC, i.e., CNS long positions are transferred from the NSCC account at DTC to the accounts of NSCC Members at DTC, in accordance with the algorithm.

For CNS Securities, NSCC uses a modified delivery versus payment mechanism in that when a Member delivers securities to CNS, the Member receives a credit, and when NSCC delivers securities to the long receiving Member (a long allocation), the securities deliveries/movements are not final until the "effective time" occurs pursuant to Rule 12 (Settlement).<sup>5</sup> Specifically, under the Rules, a CNS delivery transaction is complete and final as to the delivering Member once the securities are debited from the delivering Member's account at DTC and credited to NSCC's CNS account at DTC; however, a CNS delivery transaction does not become final as to the receiving "long" Member until the "effective time."

The current settlement processing cycle spans two business days, with a night cycle that begins at approximately 8:30 p.m. Eastern Time ("ET") on the day prior to settlement date and runs until approximately 10 p.m. ET, and a day cycle that begins at approximately 6:30 a.m. ET on settlement date and runs until approximately 3:10 p.m. ET. The night cycle and the day cycle settlement processes are essentially the same, except that the night cycle settlement process runs

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<sup>4</sup> CUSIP is a registered trademark of the American Bankers Association. The term "CUSIP number" refers to the Committee on Uniform Securities Identification Procedures identifying number.

<sup>5</sup> Pursuant to Rule 12 (Settlement), the "effective time" generally occurs when it is clear that NSCC has either been paid, or is in a credit position with respect to a Member or its Settling Bank, and NSCC has no obligation due with respect to a Member pursuant to the Clearing Agency Cross-Guaranty Agreement. Until the effective time has occurred in accordance with the Rules, NSCC retains ownership rights in the long allocations. Supra note 1.

in batches and the day cycle settlement process runs continuously. Transactions that do not get processed for settlement during the night cycle are carried into the following day cycle for settlement processing.

*Current Allocation Algorithm*

NSCC employs an algorithm to determine the order in which Members with long allocations receive positions from CNS; however, Members can submit priority requests that override NSCC's algorithm when they have special needs to receive securities owed to them (e.g., the security is undergoing a corporate action or the Member has an urgent customer delivery). The priority requests can be submitted for the night cycle, the day cycle, or both.

Pursuant to Procedure VII, subsection E (Influencing Receipts from CNS), Members can request that they receive priority for some or all issues on a standing or override basis. NSCC's Rules also permit a Member to buy-in long positions that have not been delivered to it by the close of business on the scheduled settlement date. Submission of buy-in notices and other specified activity will also affect the priority of a Member's long position.

The current priority groups are as follows –

First, long positions in a CNS Reorganization Sub-Account established pursuant to paragraph H.4 of Procedure VII of the Rules;<sup>6</sup>

Second, long positions against which Buy-In Intent<sup>7</sup> notices are due to expire that day but which were not filled the previous day;

Third, long positions against which Buy-In Intent<sup>8</sup> notices are due to expire the following day;

Fourth, (i) long positions in a receiving ID Net Subscriber's agency account established at a Qualified Securities Depository,<sup>9</sup> and (ii) long positions against the component securities of index receipts;

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<sup>6</sup> Supra note 1.

<sup>7</sup> Section 7 of Rule 11 (CNS System) and subsection J of Procedure VII (CNS Accounting Operation) of the Rules provide that in the event a Member has a Long Position in a CNS Security, the Member may demand immediate delivery thereof by submitting to NSCC a Buy-In Intent notice in such form and within such times as determined by NSCC. Supra note 1.

<sup>8</sup> Id.

<sup>9</sup> ID Net Service and its operation are described in Rule 65 (ID Net Service) and Procedure XVI (ID Net Service) of the Rules. Supra note 1.

Fifth, in descending sequence, priority levels as specified by Standing Priority Requests and as modified by Priority Overrides.

Currently, when more than one long position in a given CNS Security exists within the same priority group, the positions are allocated based on their age, i.e., the “oldest” position is allocated first.<sup>10</sup> In addition, when more than one long position in a given CNS Security exists within the same priority group all of which have been long the same number of consecutive days (i.e., within the same age group), the allocation rank is determined by a computer generated random number.

The allocation algorithm currently used for the night and day cycles is the same but is computed separately.

## **(ii) PROPOSED CHANGES TO ALLOCATION ALGORITHM**

NSCC, together with DTC,<sup>11</sup> is looking to improve processing efficiency and maximize the number of securities transactions processed for settlement during the night cycle.

Currently, approximately 50 percent (50%) of the CNS transactions are processed for settlement during the night cycle. In order to improve processing efficiency and maximize the number of CNS transactions that would get processed for settlement during the night cycle, NSCC is proposing a modification to the allocation algorithm used during the night cycle. NSCC anticipates that the proposal would increase the percentage of CNS transactions processed for settlement during the night cycle to approximately 65 percent (65%).

As described above, the current allocation sequence for day cycle and night cycle is as follows: priority groups, age of positions, and random number within an age group. Under the proposal, NSCC is proposing changes to the allocation algorithm so that age of positions and random number within an age group would no longer be considered as factors when allocating CNS long positions within the same priority group during the night cycle.<sup>12</sup> Instead, allocation

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<sup>10</sup> Age is defined in Procedure VII, subsection E, as the number of consecutive days during which the position has been long, irrespective of quantity. Supra note 1.

<sup>11</sup> On July 22, 2019, DTC submitted a proposed rule change to implement a new algorithm to optimize its settlement processing of transactions during the night cycle (“DTC settlement optimization algorithm”). The proposal is designed to maximize the number of transactions processed for settlement during the night cycle. See SR-DTC-2019-005, which was filed with the Securities and Exchange Commission (“Commission”). A copy of the proposed rule change is available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

<sup>12</sup> Based on data from January through April 2019, aged positions (i.e., positions that have failed in delivery or receipt on their respective scheduled settlement dates for one or more days) comprised approximately 0.21 percent of the value of all transactions received before netting.

of CNS long positions within the same priority group during the night cycle would be determined by the DTC settlement optimization algorithm.<sup>13</sup>

NSCC believes eliminating the age of positions and random number within an age group from being considered as factors when allocating CNS long positions within the same priority group during the night cycle would help maximize the number of transactions processed for settlement during the night cycle. Specifically, removing the requirement to process transactions for settlement during the night cycle in an order based on the age of positions and random number within an age group would help the DTC settlement optimization algorithm<sup>14</sup> perform more effectively in identifying the optimal order by which transactions are processed for settlement, which in turn would help maximize the number of transactions processed for settlement during the night cycle.

NSCC is not proposing changes to the allocation algorithm used during the day cycle.

### **(iii) PROPOSED RULE CHANGES**

NSCC is proposing to add a clause to subsection C.4 of Procedure VII (CNS Accounting Operation) to make it clear that there would be differences in the allocation algorithm used for receipts from CNS between the day cycle and the night cycle processes. NSCC is also proposing to add a parenthetical regarding subsection E of Procedure VII for ease of reference.

In order to reflect the proposed elimination of random number within an age group as a factor when allocating CNS long positions within the same priority group during the night cycle, NSCC is proposing to modify the first paragraph of subsection E of Procedure VII by deleting the references to an algorithm which changes daily.

NSCC is also proposing to revise subsection E.4 of Procedure VII to reflect the proposed changes to the allocation algorithm used during the night cycle by adding (i) “and, for the day cycle only,” to the first paragraph in subsection E.4 and (ii) “For the day cycle only,” to the third and fourth paragraphs of subsection E.4. These changes are being proposed in order to make it clear that age of positions and random number within an age group would only be considered as factors when allocating CNS long positions during the day cycle.

In addition, NSCC is proposing to modify the last paragraph of subsection E.4 of Procedure VII to make it clear that the allocation algorithm used for the night and day cycles is computed separately to allow for the use of different allocation factors in those respective cycles.

NSCC is proposing technical changes by replacing references to “evening cycle” with “night cycle” in subsections A, C.3, E.1, E.2, E.4, E.5, and H.5 of Procedure VII. Similarly, NSCC is proposing to replace references to (i) “evening allocation” with “night allocation” in subsections C.3, C.4, and J.1 of Procedure VII, (ii) “evening and day delivery cycles” with “night and day delivery cycles” in subsection E.4 of Procedure VII and (iii) “evening allocation

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<sup>13</sup> Supra note 11.

<sup>14</sup> Id.

cycle” with “night cycle” in Section I of Addendum G. These changes are being proposed to ensure consistency in terminology usage in the Rules. NSCC is also proposing technical changes to correct cross references in subsections E.3 and E.4(a) of Procedure VII.

**(iv) MEMBER OUTREACH**

Beginning in March 2018, NSCC has conducted ongoing outreach with Members in order to provide them with notice of the proposed changes. As of the date of this filing, no written comments relating to the proposed changes have been received in response to this outreach. The Commission will be notified of any written comments received.

**(v) IMPLEMENTATION TIMEFRAME**

Pending Commission approval, NSCC expects to implement this proposal by September 26, 2019 and would announce the effective date of the proposed change by an Important Notice posted to its website. As proposed, a legend would be added to Procedure VII and Addendum G stating there are changes that have been approved by the Commission but have not yet been implemented. Each proposed legend also would include a date by which such changes would be implemented and the file number of this proposal, and state that, once this proposal is implemented, the legend would automatically be removed from Procedure VII and Addendum G, as applicable.

**(b) Statutory Basis**

NSCC believes this proposal is consistent with the requirements of the Securities Exchange Act of 1934 (the “Act”), and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, NSCC believes this proposal is consistent with Section 17A(b)(3)(F)<sup>15</sup> of the Act for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>16</sup> NSCC believes that the proposed changes to the allocation algorithm used during the night cycle would promote prompt and accurate clearance and settlement of securities transactions. This is because the proposed changes would remove the requirement to process transactions for settlement during the night cycle in an order based on the age of positions and random number within an age group. Eliminating the requirement to process transactions in an order based on the age of positions and random number within an age group would help enhance the effectiveness of the DTC settlement optimization algorithm in identifying the optimal order to process transactions for settlement. Being able to effectively identify the optimal order to process transactions for settlement would help maximize the number of transactions processed for settlement during the night cycle. Therefore, NSCC believes that the proposed changes to the allocation algorithm

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

<sup>16</sup> Id.



used during the night cycle would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.

NSCC also believes that the proposal to make technical changes would promote prompt and accurate clearance and settlement of securities transactions. This is because the proposed technical changes would help ensure consistency in terminology usage and correct cross references in the Rules, both of which would ensure the Rules are clear and accurate. Having clear and accurate Rules would help Members to better understand their rights and obligations regarding NSCC's clearance and settlement services. NSCC believes that when Members better understand their rights and obligations regarding NSCC's clearance and settlement services, they can act in accordance with the Rules. NSCC believes that better enabling Members to comply with the Rules would promote the prompt and accurate clearance and settlement of securities transactions by NSCC. As such, NSCC believes the proposal to make technical changes is consistent with Section 17A(b)(3)(F) of the Act.<sup>17</sup>

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

NSCC believes the proposed changes to the allocation algorithm used during the night cycle could burden competition. This is because by eliminating the age of positions and random number within an age group from being considered as factors when allocating CNS long positions during the night cycle, Members with the oldest positions would no longer receive priority during the night cycle. While Members with aged positions would no longer be prioritized over other Members within the same priority group, NSCC does not believe such change in priority would in and of itself mean that the burden on competition is significant. This is because, as described above, aged positions only comprised approximately 0.21 percent of the value of all transactions received before netting. Accordingly, NSCC does not believe the burden on competition would be significant.

Regardless of whether the burden on competition is deemed significant, NSCC believes any burden on competition that is created by these proposed changes would be necessary and appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.<sup>18</sup>

The proposed changes to the allocation algorithm used during the night cycle would be necessary in furtherance of the purposes of the Act because the Rules must be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>19</sup> As described above, NSCC believes that the proposed changes would promote the prompt and accurate clearance and settlement of securities transactions by maximizing the number of transactions processed for settlement during the night cycle. As such, NSCC believes these

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<sup>17</sup> Id.

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

<sup>19</sup> 15 U.S.C. 78q-1(b)(3)(F).

proposed changes would be necessary in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.<sup>20</sup>

NSCC believes any burden on competition that is created by the proposed changes to the allocation algorithm used during the night cycle would also be appropriate in furtherance of the purposes of the Act. The proposed changes would eliminate the age of positions and random number within an age group from being considered as factors when allocating CNS long positions within the same priority group during the night cycle, which would in turn enhance the effectiveness of the DTC settlement optimization algorithm in identifying the optimal order by which to process transactions for settlement during the night cycle. Being able to effectively identify the optimal order by which to process transactions for settlement during the night cycle would in turn help maximize the number of transactions processed for settlement during the night cycle. As such, NSCC believes these proposed changes would be appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.<sup>21</sup>

NSCC does not believe the proposal to make technical changes would impact competition. These changes are being proposed to ensure consistency in terminology usage in the Rules and to correct cross references. They would not change NSCC's current practices or affect Members' rights and obligations. As such, NSCC believes the proposal to make technical changes would not have any impact on competition.

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

Written comments relating to this proposed rule change have not been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

#### **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<sup>22</sup> for Commission action.

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

- (a) Not applicable.
- (b) Not applicable.

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<sup>20</sup> 15 U.S.C. 78q-1(b)(3)(I).

<sup>21</sup> Id.

<sup>22</sup> 15 U.S.C. 78s(b)(2).

(c) Not applicable.

(d) Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

**11. Exhibits**

Exhibit 1 – Not applicable.

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

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules.

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_\_]; File No. SR-NSCC-2019-002)

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change to Amend Procedure VII with Respect to the Receipt of CNS Securities and Make Other Changes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July \_\_, 2019, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change would amend Procedure VII of NSCC’s Rules & Procedures (“Rules”)<sup>3</sup> with respect to the receipt of securities from NSCC’s Continuous Net Settlement (“CNS”) System<sup>4</sup> and make technical changes, as described in greater detail below.

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

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

<sup>3</sup> Capitalized terms not defined herein are defined in the Rules, available at [http://www.dtcc.com/~media/Files/Downloads/legal/rules/nscc\\_rules.pdf](http://www.dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf).

<sup>4</sup> The CNS System and its operation are described in Rule 11 (CNS System) and Procedure VII (CNS Accounting Operation) of the Rules. Id.

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

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

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

1. Purpose

The purpose of this proposed rule change is to amend Procedure VII (CNS Accounting Operation) with respect to the receipt of securities from the CNS System in order to reflect a change in the allocation algorithm used during the night cycle.<sup>5</sup> The proposed rule change would also make technical changes.

**(i) BACKGROUND**

NSCC's CNS System is an automated accounting and securities settlement system that centralizes and nets the settlement of compared and recorded securities transactions and maintains an orderly flow of security and money balances. The CNS System provides clearance for equities, corporate bonds, unit investment trusts, and municipal bonds that are eligible for book-entry transfer at The Depository Trust Company ("DTC"), an NSCC affiliate.

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<sup>5</sup> Night cycle is sometimes also referred to as "evening cycle" in the Rules. To ensure consistent terminology usage, NSCC is proposing technical changes to replace references to "evening cycle" with "night cycle" as described in greater detail below.

Under the CNS System, all eligible compared and recorded transactions for a particular settlement date are netted by CUSIP<sup>6</sup> number into one position per Member. The position can be net long (buy), net short (sell) or flat. As a continuous net system, those positions are further netted with positions of the same CUSIP number that remain open after their original scheduled settlement date (usually two business days after the trade date or T+2), so that transactions scheduled to settle on any day are netted with fail positions (i.e., positions that have failed in delivery or receipt on the settlement date), which results in a single deliver or receive obligation for each Member for each CUSIP number in which the Member has activity.

CNS relies on an interface with DTC for the book-entry movement of securities. Procedure VII (CNS Accounting Operation) describes the receipt and delivery of CNS Securities. 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. In contrast, the allocation of CNS long positions to receiving Members is processed in an order determined by an algorithm built into the system. CNS long positions are allocated to Members as the securities are received by NSCC, i.e., CNS long positions are transferred from the NSCC account at DTC to the accounts of NSCC Members at DTC, in accordance with the algorithm.

For CNS Securities, NSCC uses a modified delivery versus payment mechanism in that when a Member delivers securities to CNS, the Member receives a credit, and

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<sup>6</sup> CUSIP is a registered trademark of the American Bankers Association. The term "CUSIP number" refers to the Committee on Uniform Securities Identification Procedures identifying number.

when NSCC delivers securities to the long receiving Member (a long allocation), the securities deliveries/movements are not final until the “effective time” occurs pursuant to Rule 12 (Settlement).<sup>7</sup> Specifically, under the Rules, a CNS delivery transaction is complete and final as to the delivering Member once the securities are debited from the delivering Member’s account at DTC and credited to NSCC’s CNS account at DTC; however, a CNS delivery transaction does not become final as to the receiving “long” Member until the “effective time.”

The current settlement processing cycle spans two business days, with a night cycle that begins at approximately 8:30 p.m. Eastern Time (“ET”) on the day prior to settlement date and runs until approximately 10 p.m. ET, and a day cycle that begins at approximately 6:30 a.m. ET on settlement date and runs until approximately 3:10 p.m. ET. The night cycle and the day cycle settlement processes are essentially the same, except that the night cycle settlement process runs in batches and the day cycle settlement process runs continuously. Transactions that do not get processed for settlement during the night cycle are carried into the following day cycle for settlement processing.

*Current Allocation Algorithm*

NSCC employs an algorithm to determine the order in which Members with long allocations receive positions from CNS; however, Members can submit priority requests that override NSCC’s algorithm when they have special needs to receive securities owed to them (e.g., the security is undergoing a corporate action or the Member has an urgent

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<sup>7</sup> Pursuant to Rule 12 (Settlement), the “effective time” generally occurs when it is clear that NSCC has either been paid, or is in a credit position with respect to a Member or its Settling Bank, and NSCC has no obligation due with respect to a Member pursuant to the Clearing Agency Cross-Guaranty Agreement. Until the effective time has occurred in accordance with the Rules, NSCC retains ownership rights in the long allocations. Supra note 3.

customer delivery). The priority requests can be submitted for the night cycle, the day cycle, or both.

Pursuant to Procedure VII, subsection E (Influencing Receipts from CNS), Members can request that they receive priority for some or all issues on a standing or override basis. NSCC's Rules also permit a Member to buy-in long positions that have not been delivered to it by the close of business on the scheduled settlement date. Submission of buy-in notices and other specified activity will also affect the priority of a Member's long position.

The current priority groups are as follows –

First, long positions in a CNS Reorganization Sub-Account established pursuant to paragraph H.4 of Procedure VII of the Rules;<sup>8</sup>

Second, long positions against which Buy-In Intent<sup>9</sup> notices are due to expire that day but which were not filled the previous day;

Third, long positions against which Buy-In Intent<sup>10</sup> notices are due to expire the following day;

Fourth, (i) long positions in a receiving ID Net Subscriber's agency account established at a Qualified Securities Depository,<sup>11</sup> and (ii) long positions against the component securities of index receipts;

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<sup>8</sup> Supra note 3.

<sup>9</sup> Section 7 of Rule 11 (CNS System) and subsection J of Procedure VII (CNS Accounting Operation) of the Rules provide that in the event a Member has a Long Position in a CNS Security, the Member may demand immediate delivery thereof by submitting to NSCC a Buy-In Intent notice in such form and within such times as determined by NSCC. Supra note 3.

<sup>10</sup> Id.



Fifth, in descending sequence, priority levels as specified by Standing Priority Requests and as modified by Priority Overrides.

Currently, when more than one long position in a given CNS Security exists within the same priority group, the positions are allocated based on their age, i.e., the “oldest” position is allocated first.<sup>12</sup> In addition, when more than one long position in a given CNS Security exists within the same priority group all of which have been long the same number of consecutive days (i.e., within the same age group), the allocation rank is determined by a computer generated random number.

The allocation algorithm currently used for the night and day cycles is the same but is computed separately.

**(ii) PROPOSED CHANGES TO ALLOCATION ALGORITHM**

NSCC, together with DTC,<sup>13</sup> is looking to improve processing efficiency and maximize the number of securities transactions processed for settlement during the night cycle.

Currently, approximately 50 percent (50%) of the CNS transactions are processed for settlement during the night cycle. In order to improve processing efficiency and

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<sup>11</sup> ID Net Service and its operation are described in Rule 65 (ID Net Service) and Procedure XVI (ID Net Service) of the Rules. Supra note 3.

<sup>12</sup> Age is defined in Procedure VII, subsection E, as the number of consecutive days during which the position has been long, irrespective of quantity. Supra note 3.

<sup>13</sup> On July 22, 2019, DTC submitted a proposed rule change to implement a new algorithm to optimize its settlement processing of transactions during the night cycle (“DTC settlement optimization algorithm”). The proposal is designed to maximize the number of transactions processed for settlement during the night cycle. See SR-DTC-2019-005, which was filed with the Commission. A copy of the proposed rule change is available at <http://www.dtcc.com/legal/sec-rule-filings.aspx>.

maximize the number of CNS transactions that would get processed for settlement during the night cycle, NSCC is proposing a modification to the allocation algorithm used during the night cycle. NSCC anticipates that the proposal would increase the percentage of CNS transactions processed for settlement during the night cycle to approximately 65 percent (65%).

As described above, the current allocation sequence for day cycle and night cycle is as follows: priority groups, age of positions, and random number within an age group. Under the proposal, NSCC is proposing changes to the allocation algorithm so that age of positions and random number within an age group would no longer be considered as factors when allocating CNS long positions within the same priority group during the night cycle.<sup>14</sup> Instead, allocation of CNS long positions within the same priority group during the night cycle would be determined by the DTC settlement optimization algorithm.<sup>15</sup>

NSCC believes eliminating the age of positions and random number within an age group from being considered as factors when allocating CNS long positions within the same priority group during the night cycle would help maximize the number of transactions processed for settlement during the night cycle. Specifically, removing the requirement to process transactions for settlement during the night cycle in an order based on the age of positions and random number within an age group would help the

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<sup>14</sup> Based on data from January through April 2019, aged positions (i.e., positions that have failed in delivery or receipt on their respective scheduled settlement dates for one or more days) comprised approximately 0.21 percent of the value of all transactions received before netting.

<sup>15</sup> Supra note 13.

DTC settlement optimization algorithm<sup>16</sup> perform more effectively in identifying the optimal order by which transactions are processed for settlement, which in turn would help maximize the number of transactions processed for settlement during the night cycle.

NSCC is not proposing changes to the allocation algorithm used during the day cycle.

### **(iii) PROPOSED RULE CHANGES**

NSCC is proposing to add a clause to subsection C.4 of Procedure VII (CNS Accounting Operation) to make it clear that there would be differences in the allocation algorithm used for receipts from CNS between the day cycle and the night cycle processes. NSCC is also proposing to add a parenthetical regarding subsection E of Procedure VII for ease of reference.

In order to reflect the proposed elimination of random number within an age group as a factor when allocating CNS long positions within the same priority group during the night cycle, NSCC is proposing to modify the first paragraph of subsection E of Procedure VII by deleting the references to an algorithm which changes daily.

NSCC is also proposing to revise subsection E.4 of Procedure VII to reflect the proposed changes to the allocation algorithm used during the night cycle by adding (i) “and, for the day cycle only,” to the first paragraph in subsection E.4 and (ii) “For the day cycle only,” to the third and fourth paragraphs of subsection E.4. These changes are being proposed in order to make it clear that age of positions and random number within

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<sup>16</sup> Id.

an age group would only be considered as factors when allocating CNS long positions during the day cycle.

In addition, NSCC is proposing to modify the last paragraph of subsection E.4 of Procedure VII to make it clear that the allocation algorithm used for the night and day cycles is computed separately to allow for the use of different allocation factors in those respective cycles.

NSCC is proposing technical changes by replacing references to “evening cycle” with “night cycle” in subsections A, C.3, E.1, E.2, E.4, E.5, and H.5 of Procedure VII. Similarly, NSCC is proposing to replace references to (i) “evening allocation” with “night allocation” in subsections C.3, C.4, and J.1 of Procedure VII, (ii) “evening and day delivery cycles” with “night and day delivery cycles” in subsection E.4 of Procedure VII and (iii) “evening allocation cycle” with “night cycle” in Section I of Addendum G. These changes are being proposed to ensure consistency in terminology usage in the Rules. NSCC is also proposing technical changes to correct cross references in subsections E.3 and E.4(a) of Procedure VII.

**(iv) MEMBER OUTREACH**

Beginning in March 2018, NSCC has conducted ongoing outreach with Members in order to provide them with notice of the proposed changes. As of the date of this filing, no written comments relating to the proposed changes have been received in response to this outreach. The Commission will be notified of any written comments received.

**(v) IMPLEMENTATION TIMEFRAME**

Pending Commission approval, NSCC expects to implement this proposal by September 26, 2019 and would announce the effective date of the proposed change by an

Important Notice posted to its website. As proposed, a legend would be added to Procedure VII and Addendum G stating there are changes that have been approved by the Commission but have not yet been implemented. Each proposed legend also would include a date by which such changes would be implemented and the file number of this proposal, and state that, once this proposal is implemented, the legend would automatically be removed from Procedure VII and Addendum G, as applicable.

2. Statutory Basis

NSCC believes this proposal is consistent with the requirements of the Act, and the rules and regulations thereunder applicable to a registered clearing agency. Specifically, NSCC believes this proposal is consistent with Section 17A(b)(3)(F)<sup>17</sup> of the Act for the reasons described below.

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>18</sup> NSCC believes that the proposed changes to the allocation algorithm used during the night cycle would promote prompt and accurate clearance and settlement of securities transactions. This is because the proposed changes would remove the requirement to process transactions for settlement during the night cycle in an order based on the age of positions and random number within an age group. Eliminating the requirement to process transactions in an order based on the age of positions and random number within an age group would help enhance the effectiveness of the DTC settlement optimization algorithm in identifying the optimal order to process transactions for settlement. Being

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<sup>17</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>18</sup> Id.

able to effectively identify the optimal order to process transactions for settlement would help maximize the number of transactions processed for settlement during the night cycle. Therefore, NSCC believes that the proposed changes to the allocation algorithm used during the night cycle would promote the prompt and accurate clearance and settlement of securities transactions, consistent with Section 17A(b)(3)(F) of the Act.

NSCC also believes that the proposal to make technical changes would promote prompt and accurate clearance and settlement of securities transactions. This is because the proposed technical changes would help ensure consistency in terminology usage and correct cross references in the Rules, both of which would ensure the Rules are clear and accurate. Having clear and accurate Rules would help Members to better understand their rights and obligations regarding NSCC's clearance and settlement services. NSCC believes that when Members better understand their rights and obligations regarding NSCC's clearance and settlement services, they can act in accordance with the Rules. NSCC believes that better enabling Members to comply with the Rules would promote the prompt and accurate clearance and settlement of securities transactions by NSCC. As such, NSCC believes the proposal to make technical changes is consistent with Section 17A(b)(3)(F) of the Act.<sup>19</sup>

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

NSCC believes the proposed changes to the allocation algorithm used during the night cycle could burden competition. This is because by eliminating the age of positions and random number within an age group from being considered as factors when allocating CNS long positions during the night cycle, Members with the oldest positions

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<sup>19</sup> Id.

would no longer receive priority during the night cycle. While Members with aged positions would no longer be prioritized over other Members within the same priority group, NSCC does not believe such change in priority would in and of itself mean that the burden on competition is significant. This is because, as described above, aged positions only comprised approximately 0.21 percent of the value of all transactions received before netting. Accordingly, NSCC does not believe the burden on competition would be significant.

Regardless of whether the burden on competition is deemed significant, NSCC believes any burden on competition that is created by these proposed changes would be necessary and appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.<sup>20</sup>

The proposed changes to the allocation algorithm used during the night cycle would be necessary in furtherance of the purposes of the Act because the Rules must be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>21</sup> As described above, NSCC believes that the proposed changes would promote the prompt and accurate clearance and settlement of securities transactions by maximizing the number of transactions processed for settlement during the night cycle. As such, NSCC believes these proposed changes would be necessary in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.<sup>22</sup>

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<sup>20</sup> 15 U.S.C. 78q-1(b)(3)(I).

<sup>21</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>22</sup> 15 U.S.C. 78q-1(b)(3)(I).

NSCC believes any burden on competition that is created by the proposed changes to the allocation algorithm used during the night cycle would also be appropriate in furtherance of the purposes of the Act. The proposed changes would eliminate the age of positions and random number within an age group from being considered as factors when allocating CNS long positions within the same priority group during the night cycle, which would in turn enhance the effectiveness of the DTC settlement optimization algorithm in identifying the optimal order by which to process transactions for settlement during the night cycle. Being able to effectively identify the optimal order by which to process transactions for settlement during the night cycle would in turn help maximize the number of transactions processed for settlement during the night cycle. As such, NSCC believes these proposed changes would be appropriate in furtherance of the purposes of the Act, as permitted by Section 17A(b)(3)(I) of the Act.<sup>23</sup>

NSCC does not believe the proposal to make technical changes would impact competition. These changes are being proposed to ensure consistency in terminology usage in the Rules and to correct cross references. They would not change NSCC's current practices or affect Members' rights and obligations. As such, NSCC believes the proposal to make technical changes would not have any impact on competition.

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

Written comments relating to this proposed rule change have not been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

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<sup>23</sup>

Id.



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

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

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

should be disapproved.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2019-002 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-NSCC-2019-002. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The

Commission will post all comments on the Commission's Internet website (<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-2019-002 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>24</sup>

Secretary

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<sup>24</sup> 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.

**[Changes to this Procedure VII, as amended by File No. SR-NSCC-2019-002, are available at [dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/NSCC/SR-NSCC-2019-002.pdf](http://dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/NSCC/SR-NSCC-2019-002.pdf). These changes have been approved by the Securities and Exchange Commission but have not yet been implemented. By September 26, 2019, these changes will be implemented and this legend will automatically be removed from this Procedure VII.]**

## PROCEDURE VII. CNS ACCOUNTING OPERATION

### A. Introduction

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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 a night** cycle followed by a day cycle. Positions which remain open after the **evening night** cycle may be changed as a result of trades accepted for settlement that day. Members may influence the receipt and delivery of their securities through the use of Exemptions (for deliveries) or Priorities (for receipts).

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### C. Receipt and Delivery of Securities

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#### 3. **Evening Night** Cycle

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The results of the **evening night** 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 night** 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. **Subject to the differences in the allocation algorithm for receipts from CNS (see subsection E of this Procedure VII)**, the daytime recycle functions essentially the same as the **evening night** allocation except that the process is continual.

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## E. Influencing Receipts from CNS

After securities are received by the Corporation from Members with short positions, they are allocated to other Members which have long positions. The allocation of these securities is **designed governed by an algorithm which changes daily** so as not to benefit any one Member. Members may change their relative rank **within this algorithm** by submitting Priority Requests. The submission of a Buy-In Intent will also affect the priority of a Member's long position in that particular security.

### 1. Standing Priority Request

A Member may enter a Standing Priority Request which moves its long positions in all securities to a higher rank in the allocation formula every day and remains in effect until canceled or changed by the Member in writing.

A Member may enter a Standing Priority Request for the **evening night** cycle only, the day cycle only, or both the **evening night** and day cycles in respect of its general account or any sub-account.

### 2. Priority Overrides

A Member may override a Standing Priority Request which it has previously submitted, or obtain priority when it has not submitted a Standing Priority Request by submitting a Priority Override. Each Priority Override changes the Member's relative rank in the allocation algorithm for its long position in one security only. The Priority Override remains in effect for one day.

The Member may submit a Priority Override for the specified security for the **evening night** cycle only, the day cycle only, or for both the **evening night** and day cycles.

### 3. Buy-In Intent Notices

A Member which submits a Buy-In Intent in accordance with the provisions of subsection J of this **Section Procedure VII** is assigned to a higher relative rank in the allocation algorithm for the quantity of securities specified on the Buy-In Intent than those Members which have requested high priority through the use of a Standing Priority Request or Priority Override.

#### 4. Allocation Algorithm

The algorithm which governs the allocation of long positions is based on priority groups in descending order, **and, for the day cycle only,** age of position within a priority group and random numbers within age groups.

Priority groups include the following:

- (a) long positions in a CNS Reorganization Sub-Account established pursuant to paragraph H.4. of this **Section Procedure VII** ~~of these Procedures~~;
- (b) long positions against which Buy-In Intent notices are due to expire that day but which were not filled the previous day;
- (c) long positions against which Buy-In Intent notices are due to expire the following day;
- (d) (i) long positions in a receiving ID Net Subscriber's agency account established at a Qualified Securities Depository, and (ii) long positions against the component securities of index receipts;
- (e) in descending sequence, priority levels as specified by Standing Priority Requests and as modified by Priority Overrides.

**For the day cycle only, W**hen more than one long position in a given security exists within the same priority group, the "oldest" position is allocated first. Age is defined as the number of consecutive days during which the position has been long, irrespective of quantity.

**For the day cycle only, W**hen more than one long position in a given security exists within the same priority group all of which have been long the same number of consecutive days, the allocation rank is determined by a computer generated random number. Random numbers, which change daily, are computed so that each Member's random number is different for each security.

The allocation algorithm for the **evening night** and day delivery cycles is computed separately to allow for **different allocation factors used for night and day cycles as well as** Standing Priority Requests and Priority Overrides which have specified different levels of priority for **evening night** and day cycles.

#### 5. Fully-Paid-For Account

(Procedures for Movements to the Long Free Account)

The Corporation's processing day is divided into two parts. It begins with **an evening a night** cycle on the evening preceding the settlement day for which the

work is being processed and is followed by a day cycle which ends on the settlement day for which the work is processed. If a Member with a long position and/or a position due for settlement on the next settlement day, in anticipation of receiving securities from the Corporation (other than municipal securities, as that term is defined by the Securities Exchange Act of 1934, as amended), as a result of the allocation process during the **evening night** or day cycle for that settlement day, instructs that securities within its possession or control (other than municipal securities) be delivered on the next day and is subsequently not allocated the securities during the **evening night** or following day cycle, the Member may, in order to meet the "customer segregation" requirements of SEC Rule 15c3-3, instruct the Corporation, during the day cycle for that settlement day by the time specified by the Corporation, to transfer the position(s) which has not been allocated to a special CNS sub-account (the "Long Free Account"). The Corporation will then debit the Member's settlement account for the value of the position in the Long Free Account. The Long Free Account will be guaranteed by the Corporation and will be marked daily.

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H. Miscellaneous CNS Activity

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5. ID Net Service

Pursuant to Rule 65 and Procedure XVI, ID Net Subscribers may enter into transactions eligible for the ID Net Service, and all such transactions are recorded on the Miscellaneous Activity Report. All removals of such transactions from the ID Net Service occurring in either day or **evening night** cycle are also recorded on the Miscellaneous Activity Report.

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J. Recording of CNS Buy-Ins

1. Equity Securities and Corporate Debt Securities

Defined Terms

For the purpose of this Section J,

The day the Buy-In Intent is transmitted is referred to as N; and N+1 and N+2 refer to the succeeding business days. As noted in Section A of this Procedure VII, each day commences in the evening and includes ~~an~~ **evening a night** allocation of securities and a day allocation of securities.

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CNS Allocation Priority and CNS Retransmittal Notices

Original Buy-In Intent (expiring on N+2):

A Buy-In Position on an Original Buy-In Intent is given high priority for CNS allocation from N+1 through the daytime allocation on N+2. If a Buyin Position remains unfilled after the **evening night** allocation on N+1, the Corporation issues CNS Retransmittal Notices on the morning of N+1 to a sufficient number of Members with Short Positions. Such CNS Retransmittal Notices shall specify the originator and the remaining portion of the Buy-In Position not yet received and demand delivery from each such Member of a specified quantity of securities. CNS Retransmittal Notices are issued in an aggregate quantity at least equal to the Buy-in Position. In no case will the Buy-In Liability of a Member exceed the Buyin Position or the total Short Position of the Member. If several Members have Short Positions with the same age, all such Members are issued CNS Retransmittal Notices, even if the total of their Short Positions exceeds the Buy-in Position.

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**[Changes to this Addendum G, as amended by File No. SR-NSCC-2019-002, are available at [dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/NSCC/SR-NSCC-2019-002.pdf](http://dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/NSCC/SR-NSCC-2019-002.pdf). These changes have been approved by the Securities and Exchange Commission but have not yet been implemented. By September 26, 2019, these changes will be implemented and this legend will automatically be removed from this Addendum G.]**

## ADDENDUM G

### FULLY-PAID-FOR ACCOUNT

#### I. MOVEMENT OF SECURITIES INTO THE FULLY-PAID-FOR ACCOUNT

The expansion of the Fully-Paid-For application will be of benefit to Members making deliveries during DTC's evening and daytime processing on settlement date by permitting deliveries in anticipation of CNS allocation.

On the morning of settlement date and during the day cycle on settlement date, DTC will indicate to the Member what securities have been delivered out via DTC. Similarly the CNS Settlement Activity Report will be made available indicating what has been allocated in the **evening night allocation** cycle, and information is also provided regarding allocations made in the day cycle.

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