

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 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 checked="" type="checkbox"/>	Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>
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**Description**

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

Enhance National Securities Clearing Corporation's Automated Customer Account Transfer Service (ACATS) Transfer Processes and Make Certain Clarifications in Rule 50

**Contact Information**

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

First Name \*       Last Name \*   
 Title \*   
 E-mail \*   
 Telephone \*       Fax

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date         
 By         
 (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 the Proposed Rule Change**

(a) The proposed rule change of National Securities Clearing Corporation (“NSCC”) is annexed hereto as Exhibit 5 and consists of modifications to NSCC’s Rules & Procedures (“Rules”) in order to (i) make proposed enhancements to NSCC’s Automated Customer Account Transfer Service (“ACATS”) transfer processes relating to acceleration, Reclaims, Residual Credits and Partial Accounts and (ii) make certain clarifications to the Rules, as described in greater detail below.<sup>1</sup>

(b) Not applicable.

(c) Not applicable.

## **2. Procedures of the Self-Regulatory Organization**

The proposed rule change was approved by the Business, Technology and Operations Committee of NSCC’s Board of Directors on October 22, 2019.

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

### **(a) Purpose**

The proposed rule change consists of modifications to NSCC’s Rules in order to (i) make proposed enhancements to ACATS transfer processes relating to acceleration, Reclaims, Residual Credits and Partial Accounts and (ii) make certain clarifications to the Rules, as described in greater detail below.

### **(i) Background – ACATS**

ACATS is a non-guaranteed service that enables Members to effect automated transfers of customer accounts among themselves.<sup>2</sup> Pursuant to Rule 50, an NSCC Member to whom a customer’s full account will be transferred (the “Receiving Member”) will initiate the transfer by submitting a transfer initiation request to NSCC, which contains the customer detail information that the NSCC Member who currently has the account (the “Delivering Member”) requires to transfer the account. Delivering Members that have not rejected the account transfer request or requested corrections to the request within the allotted time must submit to NSCC certain detailed customer account asset data.

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

<sup>2</sup> ACATS complements Financial Industry Regulatory Authority (“FINRA”) Rule 11870 (“FINRA Rule 11870”) regarding customer account transfers, which requires FINRA members to use automated clearing agency customer account transfer services and to effect customer account transfers within specified time frames. See FINRA Rule 11870, available at <https://www.finra.org/rules-guidance/rulebooks/finra-rules/11870>.

Generally, under current practice, a full account transfer through ACATS completes in five business days or, if “accelerated”, four business days, as follows:

- **Day 1** – Receiving Member sends request for transfer of a customer account<sup>3</sup>
- **Day 2** – Delivering Member submits customer account asset data list to NSCC<sup>4</sup>
- **Day 3** – Receiving Member has one business day to review the customer account asset data list<sup>5</sup>
- **Day 4** – NSCC prepares to settle<sup>6</sup>
- **Day 5** – NSCC settles the transfer through ACATS and generates reports<sup>7</sup>

Except as noted with respect to the Receiving Member’s review day on Day 3 above, which specifies one business day to review, the five-day timing set forth above reflects NSCC’s and the Members’ current practice and is not specifically set forth in the Rules. The timing and procedures with respect to customer account transfers is intended to be consistent with the timing set forth in FINRA Rule 11870. While the five-day timing is illustrative of typical timing, variations may occur if the Members that are party to the transfer agree. For instance, the Delivering Member may deliver the asset list on Day 1 rather than Day 2, or, as discussed below, the Receiving Member may accept the assets on Day 2 rather than Day 3.

Under current practice, a Receiving Member may accept all or a portion of the assets prior to the end of the review period and forego its right to review the asset list for the remaining review period, which is referred to as “accelerating the transfer”. For instance, in the above five-day example, if a Receiving Member accepts all or a portion of the assets in Day 2, when it receives the asset data list, it is choosing not to review the assets on Day 3 and removing a day from the overall timing of a customer account transfer process. This acceleration process is not explicitly stated in the Rules, except for a reference to an “acceleration instruction” in Section 8 of Rule 50 which is referring to an instruction by the Receiving Member that the Receiving Member accepts all or a portion of the assets and wishes to accelerate the transfer.<sup>8</sup>

During the Receiving Member’s review period, the Delivering Member can add, delete or change an item on the asset list which, in each case, adds another business day to the transfer cycle by giving the Receiving Member one additional business day to review.<sup>9</sup>

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<sup>3</sup> See Section 2 of Rule 50, supra note 1.

<sup>4</sup> See Section 5 of Rule 50, supra note 1.

<sup>5</sup> See Section 8 of Rule 50, supra note 1.

<sup>6</sup> See Section 9 of Rule 50, supra note 1.

<sup>7</sup> See Sections 9(ii) and 10 of Rule 50, supra note 1.

<sup>8</sup> Section 8 of Rule 50, supra note 1.

<sup>9</sup> Id.

During the transfer period, an investor's assets will remain invested in the market but trading may be restricted.<sup>10</sup> The inability to trade may expose the investor to additional market risk. Currently there is an industry initiative underway to shorten the ACATS settlement cycle and create a more streamlined ACATS process.<sup>11</sup> In conjunction with the industry initiative, NSCC is proposing to modify the Rules to formalize the acceleration process by explicitly stating the right of the Receiving Member to accelerate a transfer, and to restrict the ability of Members to adjust accounts that are being transferred once an ACATS transfer in accelerated status in order to reduce delays in transfers in accelerated status. In addition, NSCC is proposing to modify the Rules relating to transfers upon Reclaims,<sup>12</sup> Residual Credits<sup>13</sup> and Partial Accounts<sup>14</sup> to provide for a more efficient process for ACATS account transfers. NSCC is also proposing to modify the Rules to make some clarifications to improve readability of the Rules.

(ii) Proposed Rule Change

NSCC is proposing to modify the Rules to add a provision providing for the right of the Receiving Member to accelerate the transfer by either (a) providing an acceleration instruction to NSCC upon receipt of the customer account asset data list from NSCC and accepting all assets or (b) deleting MF/IPS Products<sup>15</sup> and accepting the remaining assets. NSCC is proposing to add

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<sup>10</sup> During the period when an account transfer is pending, some firms will freeze trading on the client account until the account transfer is complete. Firms regulated by FINRA are required to freeze the account, by cancelling all open orders with the exception of option positions that expire within seven (7) business days, upon validation of an instruction to transfer securities account assets in whole. See FINRA Rule 11870(d), supra note 2.

<sup>11</sup> The industry initiative to shorten the ACATS settlement cycle and streamline the ACATS process is being led by the Customer Account Transfer forum ("SIFMA CAT Forum") of the Securities Industry and Financial Markets Association, an industry trade group representing securities firms, banks, and asset management companies.

<sup>12</sup> A Reclaim is a non-standard transfer initiated by a Delivering Member requesting the transfer of assets that were mistakenly delivered as part of ACATS. See Section 12(iv) of Rule 50, supra note 1.

<sup>13</sup> Residual Credits are residual credit positions which are received for the benefit of a customer's account by the Delivering Member after the ACAT process is completed or which, due to a restriction, were not included in the original asset transfer. See Section 12 of Rule 50, supra note 1.

<sup>14</sup> Partial Accounts are partial accounts held by a Delivering Member (in the form of cash or securities). Id. For instance, if a Delivering Member held four asset classes on behalf of a client, a Partial Account could be a transfer of one of the asset classes.

<sup>15</sup> Section 8 of Rule 50 provides that the Receiving Member may delete "MF/IPS Products" upon receipt of an asset list. See Section 8 of Rule 50, supra note 1. MF/IPS Products

that the transfer that has been accelerated will be in accelerated status. NSCC is also proposing to modify the Rules to (i) reduce the adjustments that Delivering Members can make during an ACATS transfer in accelerated status, (ii) provide that Reclaims may be initiated with respect to transfers where a non-Member ACATS participant is a party to the delivery, (iii) add a provision allowing Receiving Members to delete Fund/Serv Eligible Fund<sup>16</sup> assets upon transfer requests for Residual Credits and Partial Accounts and (iv) make certain clarifications described below.

(A) Acceleration

Acceleration is a current practice pursuant to which a Receiving Member will accept all or a portion of the assets in a transfer and choose not to use its right to review during the remaining review period. When a Receiving Member accelerates on the same day that a Delivering Member loads the asset list with respect to a transfer request, the transfer cycle is reduced by one day. Currently, after a Receiving Member accelerates the transfer, ACATS allows a Delivering Member to adjust the asset list, which results in the extension of the review period for an additional day.<sup>17</sup> For example, if a Delivering Member adjusts assets after acceleration by a Receiving Member, ACATS adds back a review day to the transfer timeline. To restore the acceleration and maintain the same timeline, the Receiving Member must accelerate again on that same day.

NSCC is proposing to formalize the current acceleration process by providing a right of the Receiving Member to accelerate the transfer which will place the transfer in accelerated status. A Receiving Member would accelerate a transfer of a customer account by either (i) providing an acceleration instruction to NSCC upon receipt of the customer account asset data list from NSCC and accepting all assets or (ii) deleting MF/IPS Products and accepting the remaining assets.

In addition, NSCC is proposing to change the adjustment process for transfers such that once a transfer is in accelerated status, no additional adjustments would be allowed to be made by either the Delivering Member or the Receiving Member, except for deletions of MF/IPS Products<sup>18</sup> by the Receiving Member. The proposed change has been requested by SIFMA CAT

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are defined as Fund/Serv Eligible Fund assets and/or IPS Eligible Products. Id. IPS Eligible Products are defined as an insurance product or a retirement or other benefit plan or program included in the list for which provision is made in Section 1.(d) of Rule 3. See definition of “IPS Eligible Products” in Rule 1, supra note 1.

<sup>16</sup> A Fund/Serv Eligible Fund is a fund or other pooled investment entity included in the list for which provision is made in Section 1.(c) of Rule 3 of the Rules. See definition of “Fund/Serv Eligible Fund” in Rule 1, supra note 1.

<sup>17</sup> See Section 8 of Rule 50, supra note 1, providing that “[e]ach business day that a Delivering Member causes an adjustment to be made to the account will give the Receiving Member an additional one (1) business day to review the account.”

<sup>18</sup> See supra note 15.

Forum, on behalf of the industry, which believes the change would make the acceleration process more certain by preventing adjustments during the accelerated status by a Delivering Member. Preventing adjustments for account transfers in accelerated status would put the onus on Delivering Members to ensure that the asset list they are initially providing is accurate. If an asset list is incorrect, and a Receiving Member accelerates, a Delivering Member would be able to initiate a Reclaim (discussed below) to retrieve any assets that were mistakenly added to the initial asset list and transferred to the Receiving Member.

NSCC is proposing to effect the proposed change by (i) adding in a right of the Receiving Member to accelerate in Section 8 of Rule 50 and to place a transfer in accelerated status and (ii) modifying three provisions of Section 8 of Rule 50 to restrict the Delivering Member from making additional modifications once a transfer is in accelerated status.

(B) Reclaims

A Reclaim is a non-standard transfer initiated by a Delivering Member requesting the transfer of assets that were mistakenly delivered as part of ACATS.<sup>19</sup> Reclaims provide a process through ACATS by which Delivering Members can retrieve assets that were incorrectly sent to the Receiving Firm through ACATS. The Rules currently provide that a Reclaim may only be initiated to the extent that the delivery is between a Member and another Member.<sup>20</sup> NSCC is proposing to modify the Rules to provide that a Reclaim may be initiated even if a party to the delivery is not a Member but is a participant of The Depository Trust Company (“DTC”).

In 1998, NSCC modified ACATS to allow DTC participants that are not Members to participate in ACATS.<sup>21</sup> As a result of the 1998 change, entities that are not Members, but that are DTC participants, can participate in ACATS through the use of DTC’s services; however, DTC participants were precluded from using certain non-standard processes, such as Fail Reversals and Reclaims during its initial implementation. As usage by DTC participants has increased and matured, the industry has provided feedback indicating the desire to allow additional capabilities such as Reclaims to be used for DTC participants.

In response to client requests, NSCC is proposing to modify Section 12(iv) of Rule 50 to remove the requirement that Reclaims may only be initiated to the extent the delivery is between a Member and another Member. This proposed change would provide that Reclaims could be made for assets being delivered to or from DTC participants that participate in ACATS as well as deliveries to or from Members. Based on industry feedback, it is believed that allowing Reclaims for deliveries where a DTC participant is a party to the delivery would improve the efficiency of the account transfer process by allowing such parties requesting such Reclaims to

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<sup>19</sup> See supra note 12.

<sup>20</sup> Id.

<sup>21</sup> Securities Exchange Act Release No. 40657 (November 10, 1998), 63 FR 63952 (November 17, 1998) (SR-NSCC-98-06).

use the already established automated ACATS process currently available for Reclaims between Members and Members.

(C) Deletion of Fund/Serv Eligible Fund assets upon Residual Credits/Partial Accounts transfer request

ACATS allows the Delivering Member to initiate a transfer of, among other things, Residual Credits and Partial Accounts. If a Delivering Member initiates a transfer of Residual Credits or Partial Accounts, the Receiving Member may either reject or accept the transfer request but may not submit corrections to the transfer request.<sup>22</sup> For full account transfer requests, in addition to rejecting or accepting the transfer request, Receiving Members may delete mutual fund products and insurance products from the transfer request.<sup>23</sup> Receiving Members may delete such assets in situations where the Receiving Member is unable to hold the assets, such as when it is in violation of its credit policy to hold such assets. NSCC is proposing to add a provision allowing Receiving Members to delete mutual fund products, or Fund/Serv Eligible Fund assets, from a transfer request for Partial Accounts and Residual Credits consistent with the ability to delete such assets from a full account transfer request.

The proposed Rule change would modify clause 2, Section 12 of Rule 50 to provide an exception allowing a Receiving Member to delete Fund/Serv Eligible Fund assets upon a transfer request for Partial Accounts and Residual Credits. The proposed change would align the transfer requests for Partial Accounts and Residual Credits with full account transfer requests with respect to deleting Fund/Serv Eligible Fund assets from the transfer requests. Allowing Receiving Members to delete Fund/Serv Eligible Fund assets would allow Receiving Members to reject specific assets that they are unable to hold rather than rejecting the entire transfer request.

Allowing a partial rejection of mutual fund products in a transfer request is consistent with full transfer requests and would increase efficiency in the account transfer process. Without the proposed change, Receiving Firms that receive a request for transfer that contains mutual fund products that cannot be held by the Receiving Firm must reject the transfer request. The Delivering Firm would then be required to send another transfer request for transfer of Partial Accounts and Residual Credits through ACATS containing only assets that can be held by the Receiving Member which would delay the process or require the transfer of assets outside of the ACATS process. Allowing the Receiving Members to delete the assets that they are unable to hold from the transfer requests would prevent unnecessary delay in the transfer process for Partial Accounts and Residual Credits.

(D) Clarifications

NSCC is also proposing to make the following clarifications to the Rules. NSCC is proposing to change the defined term “ACAT Service” to “ACATS” and replace the phrase “the

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<sup>22</sup> Clause 2, Section 12 of Rule 50, supra note 1.

<sup>23</sup> See supra note 15.



ACAT Service” with “ACATS” in several places to reflect current conventional use of the name of the service. NSCC is proposing to add “Receiving” in the first sentence of Section 8 of Rule 50 in order to clarify that the Member referenced in that clause is a Receiving Member. NSCC is proposing to delete “(as defined below)” after MF/IPS Products in Section 8 of Rule 50 because the new proposed language relating to a Receiving Member’s ability to accelerate a transfer would first reference that the defined term MF/IPS Products is defined below. NSCC is proposing to move the defined term “Reclaims” in Section 12(iv) of Rule 50 to make it clear that Reclaims refer to transfers of “cash or securities mistakenly delivered as part of ACATS.” NSCC is proposing to replace “Fund/SERV eligible assets” with “Fund/Serv Eligible Fund assets” in Section 12(3)(ii) and Section 13 of Rule 50, and replace “Fund/SERV Eligible Fund asset” with “Fund/Serv Eligible Fund asset” in footnote 4 of Rule 50, in each case, in order to use the correct defined term for Fund/Serv Eligible Fund. NSCC is also proposing to delete “(as defined in Section 8)” in footnote 4 of Rule 50 as the definition of Fund/Serv Eligible Fund asset is not contained in Section 8.

(iii) Implementation Timeframe

NSCC expects to implement the proposed rule changes on February 21, 2020. As proposed, a legend would be added to Rule 50 stating there are changes that became effective upon filing with the Securities and Exchange Commission (“Commission”) but have not yet been implemented. The proposed legend also would include February 21, 2020, as the date on 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 Rule 50.

(b) Statutory Basis

Section 17A(b)(3)(F) of the Securities Exchange Act of 1934, as amended (“Act”) requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>24</sup> NSCC believes that each of the proposed rule changes set forth above are consistent with this provision.

First, providing for a right of a Receiving Member to accelerate a transfer and to shorten its review period after it has agreed to accept assets and no longer needs to review would reduce delays in the transfer cycle by removing unnecessary review time from the process. In addition, reducing the adjustments that Delivering Members can make during an ACATS transfer in accelerated status would further reduce delays caused by such adjustments in a transfer that is in accelerated status. Reducing delays in the transfer cycle is consistent with the industry initiative to reduce the ACATS settlement cycle and to streamline the ACATS process and would bring greater efficiencies to the account transfer process.

Second, providing that Reclaims of assets may be initiated for transfers where a non-Member participant is a party to the delivery would allow ACATS participants to initiate Reclaims using ACATS for deliveries where a DTC participant is a party. Allowing such Reclaims to be processed through the automated ACATS system would be a more streamlined

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<sup>24</sup> 15 U.S.C. 78q-1(b)(3)(F).

method of processing the delivery of such assets as opposed to manually delivering such assets not using ACATS and as such would bring greater efficiencies to the account transfer process.

Third, adding a provision allowing Receiving Members to delete Fund/Serv Eligible Fund assets upon transfer requests for Residual Credits and Partial Accounts would align such rights with the rights Receiving Members have to delete such assets in full account transfers. In addition, the ability to delete such assets would make the process more efficient by allowing Receiving Members to make such deletions in the ACATS system rather than having to reject such transfer requests, requiring the Delivering Member to either resend another transfer request through ACATS or to manually transfer assets without such mutual fund products not using ACATS. As such, allowing Receiving Members to delete Fund/Serv Eligible Fund assets upon transfer requests for Residual Credits and Partial Accounts would bring greater efficiencies to the account transfer process.

Therefore, by bringing greater efficiencies to the account transfer process as set forth above, NSCC believes the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions, consistent with the requirements of the Act, in particular Section 17A(b)(3)(F) of the Act.<sup>25</sup>

The clarification changes set forth in 3(a)(ii)(D) above are also consistent with this provision because the proposed clarification changes would enhance clarity and transparency for participants with respect to services offered by NSCC allowing ACATS participants to have a better understanding of the Rules relating to ACATS and the customer account transfer process. 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 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 consistent with the requirements of the Act, in particular Section 17A(b)(3)(F) of the Act.<sup>26</sup>

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

NSCC does not believe that the proposed rule change would have any adverse impact, or impose any burden, on competition. NSCC believes that the proposed changes set forth in 3(a)(ii)(A) – (C) above would bring greater efficiencies to the account transfer process as discussed above consistent with the industry initiatives to streamline ACATS and would promote competition by allowing ACATS participants to process account transfers in a faster, more efficient manner. Allowing ACATS participants to process account transfers in a more efficient manner would result in client assets being transferred to the appropriate Members and DTC participants more quickly. NSCC believes that reducing the time it takes to transfer account assets to the appropriate Member or DTC participant using ACATS would allow the Members'

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<sup>25</sup> Id.

<sup>26</sup> Id.

or DTC participants' respective clients to transfer securities in their transferred accounts more quickly, promoting the ability to trade such securities and therefore promoting competition in the marketplace.

NSCC does not believe that the proposed clarification changes set forth in 3(a)(ii)(D) above would have any impact on competition because such changes are clarifications of the Rules which would improve the Member's understanding of the Rules and would not otherwise affect the rights or obligations of NSCC Members.

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

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

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

Not applicable.

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

(a) The proposed rule changes are to take effect immediately upon filing pursuant to paragraph A of Section 19(b)(3)<sup>27</sup> of the Act and subparagraph (f)(4)<sup>28</sup> of Rule 19b-4 under the Act.

(b) The proposed rule change effects a change in an existing service of a registered clearing agency that: (i) does not adversely affect the safeguarding of securities or funds in the custody or control of the clearing agency or for which it is responsible, and (ii) does not significantly affect the respective rights or obligations of the clearing agency or persons using the service. The proposed changes set forth in 3(a)(ii)(A) – (C) above would add features to ACATS to improve the efficiency of ACATS as discussed above but will not significantly affect the rights or obligations of NSCC or NSCC participants for the reasons set forth below.

The proposed change in 3(a)(ii)(A) to add the optional right of the Receiving Member to accelerate would provide the ability of the Receiving Member to agree to accept those assets which it believes should be transferred before the review period ends and forego its rights to review the assets during the remainder of the review period. Acceleration would not affect the Delivering Member's ability to load the initial asset list and thus to ensure that the asset list is accurate. Since the ability to accelerate would be an optional right of the Receiving Member to forego its own review period, which it could exercise once it believes that it has determined which assets to accept and does not affect the Delivering Member's right to load the

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<sup>27</sup> 15 U.S.C 78s(b)(3)(A).

<sup>28</sup> 17 CFR 240.19b-4(f)(4).

initial asset list, the proposed change would not significantly affect the rights or obligations of NSCC or NSCC participants.

The proposed change in 3(a)(ii)(A) to prevent the Delivering Member from making adjustments once the Receiving Member has placed the transfer in accelerated status would also not affect the Delivering Member's ability to load the initial asset list and thus to ensure that the asset list is accurate. If an asset list is inaccurate, and a Receiving Member accelerates, although the proposed change would prevent adjustments after such acceleration, a Delivering Member would still have the ability to initiate a Reclaim to retrieve any assets that were mistakenly added to the initial asset list and transferred to the Receiving Member. Therefore, the proposed change would not significantly affect the rights or obligations of NSCC or NSCC participants.

The proposed change set forth in 3(a)(ii)(B) would provide the optional ability for Members and DTC participants that participate in ACATS through DTC to conduct Reclaims when the transfer involves a DTC participant. Under the current Rules Reclaims may only be initiated to the extent the delivery is between a Member and another Member. The proposed change would only be extending this existing Reclaim process to transfers that involve a DTC participant which would make such transfers more efficient. Allowing Members and DTC participants to use an already established automated ACATS process currently available between Members and Members for transfers involving DTC participants would only increase efficiency of the process and would not significantly affect the rights or obligations of NSCC or NSCC participants.

The proposed changes set forth in 3(a)(ii)(C) to allow Receiving Members to delete Fund/Serv Eligible Fund assets from a transfer request for Partial Accounts and Residual Credits would make this process more efficient and more consistent with the process for full account transfer requests. The ability to delete such assets would make the process more efficient by allowing Receiving Members to make such deletions in the ACATS process rather than having to reject such transfer requests, requiring the Delivering Member to either resend another transfer request through ACATS or to manually transfer assets without such mutual fund products not using ACATS. Allowing Receiving Members to use ACATS to delete such assets from a transfer would only increase efficiency in the process and would not significantly affect the rights or obligations of NSCC or NSCC participants.

The proposed changes set forth in set forth in 3(a)(ii)(D) above are clarifying in nature and do not change any of the existing business practices of NSCC or affect the rights or obligations of NSCC or ACATS participants. Therefore, the proposed rule change would not significantly affect the rights or obligations of NSCC or NSCC participants consistent with Rule 19b-4(f)(4).<sup>29</sup>

(c) Not applicable.

(d) Not applicable.

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<sup>29</sup>

Id.

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

Not applicable.

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

Not applicable.

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

Not applicable.

**11. Exhibits**

Exhibit 1 – Not applicable.

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

Exhibit 2 – Not applicable.

Exhibit 3 – Not applicable.

Exhibit 4 – Not applicable.

Exhibit 5 – Proposed changes to the Rules.

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_]; File No. SR-NSCC-2020-001)

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Enhance National Securities Clearing Corporation’s Automated Customer Account Transfer Service (ACATS) Transfer Processes and Make Certain Clarifications in Rule 50

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 January \_\_, 2020, 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)<sup>3</sup> of the Act and subparagraph (f)(4)<sup>4</sup> of Rule 19b-4 thereunder. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change consists of amendments to NSCC’s Rules & Procedures (“Rules”) in order to (i) make proposed enhancements to NSCC’s Automated Customer Account Transfer Service (“ACATS”) transfer processes relating to

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

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

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

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

acceleration, Reclaims, Residual Credits and Partial Accounts and (ii) make certain clarifications to the Rules, as described in greater detail below.<sup>5</sup>

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 proposed rule change consists of modifications to NSCC's Rules in order to (i) make proposed enhancements to ACATS transfer processes relating to acceleration, Reclaims, Residual Credits and Partial Accounts and (ii) make certain clarifications to the Rules, as described in greater detail below.

(a) Background – ACATS

ACATS is a non-guaranteed service that enables Members to effect automated transfers of customer accounts among themselves.<sup>6</sup> Pursuant to Rule 50, an NSCC

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<sup>5</sup> Capitalized terms not defined herein are defined in the Rules, available at [http://dtcc.com/~media/Files/Downloads/legal/rules/nsccl\\_rules.pdf](http://dtcc.com/~media/Files/Downloads/legal/rules/nsccl_rules.pdf).

<sup>6</sup> ACATS complements Financial Industry Regulatory Authority ("FINRA") Rule 11870 ("FINRA Rule 11870") regarding customer account transfers, which requires FINRA members to use automated clearing agency customer account transfer services and to effect customer account transfers within specified time

Member to whom a customer's full account will be transferred (the "Receiving Member") will initiate the transfer by submitting a transfer initiation request to NSCC, which contains the customer detail information that the NSCC Member who currently has the account (the "Delivering Member") requires to transfer the account. Delivering Members that have not rejected the account transfer request or requested corrections to the request within the allotted time must submit to NSCC certain detailed customer account asset data.

Generally, under current practice, a full account transfer through ACATS completes in five business days or, if "accelerated", four business days, as follows:

- **Day 1** – Receiving Member sends request for transfer of a customer account<sup>7</sup>
- **Day 2** – Delivering Member submits customer account asset data list to NSCC<sup>8</sup>
- **Day 3** – Receiving Member has one business day to review the customer account asset data list<sup>9</sup>
- **Day 4** – NSCC prepares to settle<sup>10</sup>
- **Day 5** – NSCC settles the transfer through ACATS and generates reports<sup>11</sup>

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frames. See FINRA Rule 11870, available at <https://www.finra.org/rules-guidance/rulebooks/finra-rules/11870>.

<sup>7</sup> See Section 2 of Rule 50, supra note 5.

<sup>8</sup> See Section 5 of Rule 50, supra note 5.

<sup>9</sup> See Section 8 of Rule 50, supra note 5.

<sup>10</sup> See Section 9 of Rule 50, supra note 5.

<sup>11</sup> See Sections 9(ii) and 10 of Rule 50, supra note 5.



Except as noted with respect to the Receiving Member's review day on Day 3 above, which specifies one business day to review, the five-day timing set forth above reflects NSCC's and the Members' current practice and is not specifically set forth in the Rules. The timing and procedures with respect to customer account transfers is intended to be consistent with the timing set forth in FINRA Rule 11870. While the five-day timing is illustrative of typical timing, variations may occur if the Members that are party to the transfer agree. For instance, the Delivering Member may deliver the asset list on Day 1 rather than Day 2, or, as discussed below, the Receiving Member may accept the assets on Day 2 rather than Day 3.

Under current practice, a Receiving Member may accept all or a portion of the assets prior to the end of the review period and forego its right to review the asset list for the remaining review period, which is referred to as "accelerating the transfer". For instance, in the above five-day example, if a Receiving Member accepts all or a portion of the assets in Day 2, when it receives the asset data list, it is choosing not to review the assets on Day 3 and removing a day from the overall timing of a customer account transfer process. This acceleration process is not explicitly stated in the Rules, except for a reference to an "acceleration instruction" in Section 8 of Rule 50 which is referring to an instruction by the Receiving Member that the Receiving Member accepts all or a portion of the assets and wishes to accelerate the transfer.<sup>12</sup>

During the Receiving Member's review period, the Delivering Member can add, delete or change an item on the asset list which, in each case, adds another business day

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<sup>12</sup> Section 8 of Rule 50, supra note 5.

to the transfer cycle by giving the Receiving Member one additional business day to review.<sup>13</sup>

During the transfer period, an investor's assets will remain invested in the market but trading may be restricted.<sup>14</sup> The inability to trade may expose the investor to additional market risk. Currently there is an industry initiative underway to shorten the ACATS settlement cycle and create a more streamlined ACATS process.<sup>15</sup> In conjunction with the industry initiative, NSCC is proposing to modify the Rules to formalize the acceleration process by explicitly stating the right of the Receiving Member to accelerate a transfer, and to restrict the ability of Members to adjust accounts that are being transferred once an ACATS transfer in accelerated status in order to reduce delays in transfers in accelerated status. In addition, NSCC is proposing to modify the Rules

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<sup>13</sup> Id.

<sup>14</sup> During the period when an account transfer is pending, some firms will freeze trading on the client account until the account transfer is complete. Firms regulated by FINRA are required to freeze the account, by cancelling all open orders with the exception of option positions that expire within seven (7) business days, upon validation of an instruction to transfer securities account assets in whole. See FINRA Rule 11870(d), supra note 6.

<sup>15</sup> The industry initiative to shorten the ACATS settlement cycle and streamline the ACATS process is being led by the Customer Account Transfer forum ("SIFMA CAT Forum") of the Securities Industry and Financial Markets Association, an industry trade group representing securities firms, banks, and asset management companies.

relating to transfers upon Reclaims,<sup>16</sup> Residual Credits<sup>17</sup> and Partial Accounts<sup>18</sup> to provide for a more efficient process for ACATS account transfers. NSCC is also proposing to modify the Rules to make some clarifications to improve readability of the Rules.

(b) Proposed Rule Change

NSCC is proposing to modify the Rules to add a provision providing for the right of the Receiving Member to accelerate the transfer by either (a) providing an acceleration instruction to NSCC upon receipt of the customer account asset data list from NSCC and accepting all assets or (b) deleting MF/IPS Products<sup>19</sup> and accepting the remaining assets. NSCC is proposing to add that the transfer that has been accelerated will be in accelerated status. NSCC is also proposing to modify the Rules to (i) reduce the adjustments that Delivering Members can make during an ACATS transfer in accelerated

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<sup>16</sup> A Reclaim is a non-standard transfer initiated by a Delivering Member requesting the transfer of assets that were mistakenly delivered as part of ACATS. See Section 12(iv) of Rule 50, supra note 5.

<sup>17</sup> Residual Credits are residual credit positions which are received for the benefit of a customer's account by the Delivering Member after the ACAT process is completed or which, due to a restriction, were not included in the original asset transfer. See Section 12 of Rule 50, supra note 5.

<sup>18</sup> Partial Accounts are partial accounts held by a Delivering Member (in the form of cash or securities). Id. For instance, if a Delivering Member held four asset classes on behalf of a client, a Partial Account could be a transfer of one of the asset classes.

<sup>19</sup> Section 8 of Rule 50 provides that the Receiving Member may delete "MF/IPS Products" upon receipt of an asset list. See Section 8 of Rule 50, supra note 5. MF/IPS Products are defined as Fund/Serv Eligible Fund assets and/or IPS Eligible Products. Id. IPS Eligible Products are defined as an insurance product or a retirement or other benefit plan or program included in the list for which provision is made in Section 1.(d) of Rule 3. See definition of "IPS Eligible Products" in Rule 1, supra note 5.

status, (ii) provide that Reclaims may be initiated with respect to transfers where a non-Member ACATS participant is a party to the delivery, (iii) add a provision allowing Receiving Members to delete Fund/Serv Eligible Fund<sup>20</sup> assets upon transfer requests for Residual Credits and Partial Accounts and (iv) make certain clarifications described below.

(i) Acceleration

Acceleration is a current practice pursuant to which a Receiving Member will accept all or a portion of the assets in a transfer and choose not to use its right to review during the remaining review period. When a Receiving Member accelerates on the same day that a Delivering Member loads the asset list with respect to a transfer request, the transfer cycle is reduced by one day. Currently, after a Receiving Member accelerates the transfer, ACATS allows a Delivering Member to adjust the asset list, which results in the extension of the review period for an additional day.<sup>21</sup> For example, if a Delivering Member adjusts assets after acceleration by a Receiving Member, ACATS adds back a review day to the transfer timeline. To restore the acceleration and maintain the same timeline, the Receiving Member must accelerate again on that same day.

NSCC is proposing to formalize the current acceleration process by providing a right of the Receiving Member to accelerate the transfer which will place the transfer in accelerated status. A Receiving Member would accelerate a transfer of a customer

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<sup>20</sup> A Fund/Serv Eligible Fund is a fund or other pooled investment entity included in the list for which provision is made in Section 1.(c) of Rule 3 of the Rules. See definition of “Fund/Serv Eligible Fund” in Rule 1, supra note 5.

<sup>21</sup> See Section 8 of Rule 50, supra note 5, providing that “[e]ach business day that a Delivering Member causes an adjustment to be made to the account will give the Receiving Member an additional one (1) business day to review the account.”

account by either (i) providing an acceleration instruction to NSCC upon receipt of the customer account asset data list from NSCC and accepting all assets or (ii) deleting MF/IPS Products and accepting the remaining assets.

In addition, NSCC is proposing to change the adjustment process for transfers such that once a transfer is in accelerated status, no additional adjustments would be allowed to be made by either the Delivering Member or the Receiving Member, except for deletions of MF/IPS Products<sup>22</sup> by the Receiving Member. The proposed change has been requested by SIFMA CAT Forum, on behalf of the industry, which believes the change would make the acceleration process more certain by preventing adjustments during the accelerated status by a Delivering Member. Preventing adjustments for account transfers in accelerated status would put the onus on Delivering Members to ensure that the asset list they are initially providing is accurate. If an asset list is incorrect, and a Receiving Member accelerates, a Delivering Member would be able to initiate a Reclaim (discussed below) to retrieve any assets that were mistakenly added to the initial asset list and transferred to the Receiving Member.

NSCC is proposing to effect the proposed change by (i) adding in a right of the Receiving Member to accelerate in Section 8 of Rule 50 and to place a transfer in accelerated status and (ii) modifying three provisions of Section 8 of Rule 50 to restrict the Delivering Member from making additional modifications once a transfer is in accelerated status.

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<sup>22</sup> See supra note 19.

(ii) Reclaims

A Reclaim is a non-standard transfer initiated by a Delivering Member requesting the transfer of assets that were mistakenly delivered as part of ACATS.<sup>23</sup> Reclaims provide a process through ACATS by which Delivering Members can retrieve assets that were incorrectly sent to the Receiving Firm through ACATS. The Rules currently provide that a Reclaim may only be initiated to the extent that the delivery is between a Member and another Member.<sup>24</sup> NSCC is proposing to modify the Rules to provide that a Reclaim may be initiated even if a party to the delivery is not a Member but is a participant of The Depository Trust Company (“DTC”).

In 1998, NSCC modified ACATS to allow DTC participants that are not Members to participate in ACATS.<sup>25</sup> As a result of the 1998 change, entities that are not Members, but that are DTC participants, can participate in ACATS through the use of DTC’s services; however, DTC participants were precluded from using certain non-standard processes, such as Fail Reversals and Reclaims during its initial implementation. As usage by DTC participants has increased and matured, the industry has provided feedback indicating the desire to allow additional capabilities such as Reclaims to be used for DTC participants.

In response to client requests, NSCC is proposing to modify Section 12(iv) of Rule 50 to remove the requirement that Reclaims may only be initiated to the extent the

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<sup>23</sup> See supra note 16.

<sup>24</sup> Id.

<sup>25</sup> Securities Exchange Act Release No. 40657 (November 10, 1998), 63 FR 63952 (November 17, 1998) (SR-NSCC-98-06).

delivery is between a Member and another Member. This proposed change would provide that Reclaims could be made for assets being delivered to or from DTC participants that participate in ACATS as well as deliveries to or from Members. Based on industry feedback, it is believed that allowing Reclaims for deliveries where a DTC participant is a party to the delivery would improve the efficiency of the account transfer process by allowing such parties requesting such Reclaims to use the already established automated ACATS process currently available for Reclaims between Members and Members.

(iii) Deletion of Fund/Serv Eligible Fund assets upon Residual Credits/Partial Accounts transfer request

ACATS allows the Delivering Member to initiate a transfer of, among other things, Residual Credits and Partial Accounts. If a Delivering Member initiates a transfer of Residual Credits or Partial Accounts, the Receiving Member may either reject or accept the transfer request but may not submit corrections to the transfer request.<sup>26</sup> For full account transfer requests, in addition to rejecting or accepting the transfer request, Receiving Members may delete mutual fund products and insurance products from the transfer request.<sup>27</sup> Receiving Members may delete such assets in situations where the Receiving Member is unable to hold the assets, such as when it is in violation of its credit policy to hold such assets. NSCC is proposing to add a provision allowing Receiving Members to delete mutual fund products, or Fund/Serv Eligible Fund assets, from a

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<sup>26</sup> Clause 2, Section 12 of Rule 50, supra note 5.

<sup>27</sup> See supra note 19.

transfer request for Partial Accounts and Residual Credits consistent with the ability to delete such assets from a full account transfer request.

The proposed Rule change would modify clause 2, Section 12 of Rule 50 to provide an exception allowing a Receiving Member to delete Fund/Serv Eligible Fund assets upon a transfer request for Partial Accounts and Residual Credits. The proposed change would align the transfer requests for Partial Accounts and Residual Credits with full account transfer requests with respect to deleting Fund/Serv Eligible Fund assets from the transfer requests. Allowing Receiving Members to delete Fund/Serv Eligible Fund assets would allow Receiving Members to reject specific assets that they are unable to hold rather than rejecting the entire transfer request.

Allowing a partial rejection of mutual fund products in a transfer request is consistent with full transfer requests and would increase efficiency in the account transfer process. Without the proposed change, Receiving Firms that receive a request for transfer that contains mutual fund products that cannot be held by the Receiving Firm must reject the transfer request. The Delivering Firm would then be required to send another transfer request for transfer of Partial Accounts and Residual Credits through ACATS containing only assets that can be held by the Receiving Member which would delay the process or require the transfer of assets outside of the ACATS process. Allowing the Receiving Members to delete the assets that they are unable to hold from the transfer requests would prevent unnecessary delay in the transfer process for Partial Accounts and Residual Credits.



(iv) Clarifications

NSCC is also proposing to make the following clarifications to the Rules. NSCC is proposing to change the defined term “ACAT Service” to “ACATS” and replace the phrase “the ACAT Service” with “ACATS” in several places to reflect current conventional use of the name of the service. NSCC is proposing to add “Receiving” in the first sentence of Section 8 of Rule 50 in order to clarify that the Member referenced in that clause is a Receiving Member. NSCC is proposing to delete “(as defined below)” after MF/IPS Products in Section 8 of Rule 50 because the new proposed language relating to a Receiving Member’s ability to accelerate a transfer would first reference that the defined term MF/IPS Products is defined below. NSCC is proposing to move the defined term “Reclaims” in Section 12(iv) of Rule 50 to make it clear that Reclaims refer to transfers of “cash or securities mistakenly delivered as part of ACATS.” NSCC is proposing to replace “Fund/SERV eligible assets” with “Fund/Serv Eligible Fund assets” in Section 12(3)(ii) and Section 13 of Rule 50, and replace “Fund/SERV Eligible Fund asset” with “Fund/Serv Eligible Fund asset” in footnote 4 of Rule 50, in each case, in order to use the correct defined term for Fund/Serv Eligible Fund. NSCC is also proposing to delete “(as defined in Section 8)” in footnote 4 of Rule 50 as the definition of Fund/Serv Eligible Fund asset is not contained in Section 8.

(c) Implementation Timeframe

NSCC expects to implement the proposed rule changes on February 21, 2020. As proposed, a legend would be added to Rule 50 stating there are changes that became effective upon filing with the Commission but have not yet been implemented. The proposed legend also would include February 21, 2020, as the date on 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 Rule 50.

(2) Statutory Basis

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>28</sup>

NSCC believes that each of the proposed rule changes set forth above are consistent with this provision.

First, providing for a right of a Receiving Member to accelerate a transfer and to shorten its review period after it has agreed to accept assets and no longer needs to review would reduce delays in the transfer cycle by removing unnecessary review time from the process. In addition, reducing the adjustments that Delivering Members can make during an ACATS transfer in accelerated status would further reduce delays caused by such adjustments in a transfer that is in accelerated status. Reducing delays in the transfer cycle is consistent with the industry initiative to reduce the ACATS settlement cycle and to streamline the ACATS process and would bring greater efficiencies to the account transfer process.

Second, providing that Reclaims of assets may be initiated for transfers where a non-Member participant is a party to the delivery would allow ACATS participants to initiate Reclaims using ACATS for deliveries where a DTC participant is a party. Allowing such Reclaims to be processed through the automated ACATS system would be a more streamlined method of processing the delivery of such assets as opposed to

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<sup>28</sup> 15 U.S.C. 78q-1(b)(3)(F).

manually delivering such assets not using ACATS and as such would bring greater efficiencies to the account transfer process.

Third, adding a provision allowing Receiving Members to delete Fund/Serv Eligible Fund assets upon transfer requests for Residual Credits and Partial Accounts would align such rights with the rights Receiving Members have to delete such assets in full account transfers. In addition, the ability to delete such assets would make the process more efficient by allowing Receiving Members to make such deletions in the ACATS system rather than having to reject such transfer requests, requiring the Delivering Member to either resend another transfer request through ACATS or to manually transfer assets without such mutual fund products not using ACATS. As such, allowing Receiving Members to delete Fund/Serv Eligible Fund assets upon transfer requests for Residual Credits and Partial Accounts would bring greater efficiencies to the account transfer process.

Therefore, by bringing greater efficiencies to the account transfer process as set forth above, NSCC believes the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions, consistent with the requirements of the Act, in particular Section 17A(b)(3)(F) of the Act.<sup>29</sup>

The clarification changes set forth in II(A)(i)(b)(iv) above are also consistent with this provision because the proposed clarification changes would enhance clarity and transparency for participants with respect to services offered by NSCC allowing ACATS participants to have a better understanding of the Rules relating to ACATS and the customer account transfer process. Having clear and accurate Rules would help

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<sup>29</sup>

Id.

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 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 consistent with the requirements of the Act, in particular Section 17A(b)(3)(F) of the Act.<sup>30</sup>

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

NSCC does not believe that the proposed rule change would have any adverse impact, or impose any burden, on competition. NSCC believes that the proposed changes set forth in II(A)(1)(b)(i) – (iii) above would bring greater efficiencies to the account transfer process as discussed above consistent with the industry initiatives to streamline ACATS and would promote competition by allowing ACATS participants to process account transfers in a faster, more efficient manner. Allowing ACATS participants to process account transfers in a more efficient manner would result in client assets being transferred to the appropriate Members and DTC participants more quickly. NSCC believes that reducing the time it takes to transfer account assets to the appropriate Member or DTC participant using ACATS would allow the Members' or DTC participants' respective clients to transfer securities in their transferred accounts more quickly, promoting the ability to trade such securities and therefore promoting competition in the marketplace.

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<sup>30</sup> Id.

NSCC does not believe that the proposed clarification changes set forth in II(A)(1)(b)(iv) above would have any impact on competition because such changes are clarifications of the Rules which would improve the Member's understanding of the Rules and would not otherwise affect the rights or obligations of NSCC Members.

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

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

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)<sup>31</sup> of the Act and paragraph (f)<sup>32</sup> of Rule 19b-4 thereunder. 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:

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<sup>31</sup> 15 U.S.C 78s(b)(3)(A).

<sup>32</sup> 17 CFR 240.19b-4(f).

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-2020-001 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-2020-001. 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-2020-001 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>33</sup>

Secretary

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<sup>33</sup> 17 CFR 200.30-3(a)(12).



## RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

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

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



RULE 50. AUTOMATED CUSTOMER ACCOUNT TRANSFER SERVICE

**Changes to this Rule 50, as amended by File No. SR-NSCC-2020-001, are available at [dtcc.com/~media/Files/Downloads/legal/rule\\_filings/2020/NSCC/SR-NSCC-2020-001.pdf](http://dtcc.com/~media/Files/Downloads/legal/rule_filings/2020/NSCC/SR-NSCC-2020-001.pdf). These changes became effective upon filing with the Securities and Exchange Commission but have not yet been implemented. On February 21, 2020, these changes will be implemented and this legend will automatically be removed from this Rule 50.**

SEC. 1. The Corporation may provide a service to enable Members and Qualified Securities Depositories, on behalf of their participants (hereinafter referred to as the "QSD"), to transfer accounts of their customers between themselves on an automated basis. Such automated transfer of customer accounts will be known as the Automated Customer Account Transfer Service (hereinafter referred to as **the "ACATS Service"**) and will be processed in accordance with the provisions of this Rule.

\* \* \*

SEC. 5. Within the time frame established by the Corporation or, to the extent applicable, the Delivering Member's Designated Examining Authority ("DEA"), and, to the extent applicable, pursuant to reasons permitted by the Delivering Member's DEA, the Delivering Member must either reject a customer account transfer request by submitting a rejection to the Corporation in such form as determined by the Corporation from time to time, or submit to the Corporation detailed customer account asset data in such format as established by the Corporation from time to time; provided, however, that if Fund/Serv Eligible Fund assets are to be transferred through Mutual Fund Services, the Delivering Member must specify the quantity of each Fund/Serv Eligible Fund asset to be processed and indicate whether each such transfer shall be a full or a partial transfer<sup>1</sup>. A Delivering Member who rejects a transfer request must indicate the reason for the rejection. Any transfer request that is not responded to by a Delivering Member within such time frame as established by the Corporation from time to time will be deleted from **the ACATS Service** by the Corporation and the Receiving and Delivering Member's will be notified accordingly. A Receiving Member who desires to resubmit a transfer request that is deleted will be required to reinitiate the request as if one had never been previously submitted.

SEC. 6. The Corporation will notify a Receiving Member, in such manner as determined by the Corporation from time to time, of customer account transfer requests that have been rejected by the Delivering Member and the Corporation will cause such requests to be deleted from **the ACATS Service** unless a correction is submitted by the Receiving Member as set forth below. To the extent the rejection is for enumerated categories, as specified by the Corporation from time to time, within one (1) business day after notification of a Delivering Member's rejection, a Receiving Member may

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<sup>1</sup> A full transfer will cause all Fund/Serv Eligible Fund account assets, whether greater or lesser than the quantity specified, to be transferred. A partial transfer will cause only the Fund/Serv Eligible Fund account asset quantity specified or such lesser amount to be transferred.

adjust a customer account transfer request by submitting corrections to the Corporation in such manner as determined by the Corporation from time to time. A Delivering Member must either reject the adjusted transfer request by submitting a rejection to the Corporation or submit to the Corporation detailed customer account asset data, in such manner and by such time as determined by the Corporation from time to time. If the Delivering Member fails to respond to the adjusted transfer request within such time frame as established by the Corporation from time to time, the Corporation will delete such request from ~~the ACATS Service~~ and the Receiving and Delivering Members will be notified accordingly. A Receiving Member who desires to resubmit a transfer request that is deleted will be required to reinitiate the request as if one had never been previously submitted.

SEC. 7. Upon receipt by the Corporation from the Delivering Member of customer account asset data, the Corporation will use its best efforts to validate the data for edit errors. However, the Corporation will not assume the responsibility for such validation process. If no edit errors or format errors are discovered by the Corporation in the asset data, details of the account will be reported to both the Delivering Member and the Receiving Member in such manner and by such time as established by the Corporation from time to time. If the Corporation discovers that customer account asset data contains one or more edit errors or, format errors, the Corporation will notify the Receiving Member in such manner and by such time as determined by the Corporation from time to time that customer account asset data has been received from the Delivering Member but that it contains edit errors or format errors. The Corporation will notify the Delivering Member in such manner and by such time as determined by the Corporation from time to time of all customer account asset data reported, indicating that which contains errors. The Delivering Member will be required to correct those items that contain edit errors or format errors in order to permit delivery of the customer's account to occur within the time frame as established by the Delivering Member's DEA. If the Delivering Member fails to correct edit errors or format errors within such time frame established by the Corporation, the Corporation will delete the transfer request from ~~the ACATS Service~~. A Receiving Member who desires to resubmit a transfer request that is deleted will be required to reinitiate the request as if one had never been previously submitted.

SEC. 8 . A Receiving Member will have one (1) business day after receipt from the Corporation of the report detailing the customer account asset data to review the account and accept all assets, or, to the extent permitted by the **Receiving** Member's DEA, if applicable, reject one or more assets within a DEA determined asset category, request the Delivering Member to make adjustments to it or, as permitted by the Corporation or, to the extent applicable, the Receiving Member's DEA, reject the account. No action is required by the Receiving Member if it determines to accept all assets in an account. **A Receiving Member may accelerate the transfer of the customer account by either (i) providing an acceleration instruction to the Corporation upon receipt of the customer account asset data list from the Corporation and accepting all assets or (ii) deleting MF/IPS Products (as defined below) and accepting the remaining assets. Once a Receiving Member has**

**accelerated the transfer, the transfer will be in accelerated status.** During the one (1) business day time period, only the Delivering Member will be able to add, delete or change an item, **provided that the Receiving Member did not accelerate the transfer,** by delivering to the Corporation such information in such form and by such time as established by the Corporation from time to time, other than with respect to MF/IPS Products ~~(as defined below)~~, which can also be deleted by the Receiving Member. **Once the Receiving Member accelerates the transfer, the Delivering Member will be prohibited from making any adjustments to the account. If the transfer is not in an accelerated status,** Each business day that a Delivering Member causes an adjustment to be made to an account will give the Receiving Member an additional one (1) business day to review the account. If Fund/Serv Eligible Fund assets and/or IPS Eligible Products ("MF/IPS Products") are to be transferred the Receiving Member shall also, within one (1) business day after receipt from the Corporation of the report detailing the MF/IPS Products data or simultaneous with the submission of an acceleration instruction, submit to the Corporation detailed transfer instructions in such format as established by the Corporation from time to time, which instructions shall be processed through Mutual Fund Services in accordance with Section 16 of Subsection A of Rule 52 or through IPS in accordance with Section 6 of Rule 57, as applicable. If a Receiving Member submits instructions and determines that a modification must be made to such instruction, such modifications must be submitted within the same deadline. **Modifications to an already submitted instruction will not be permitted if the transfer is in accelerated status.** Each business day that the Delivering Member causes an adjustment to be made to an account will give the Receiving Member an additional one (1) business day to submit such transfer information. With respect to Fund/Serv Eligible Fund assets, if the Receiving Member fails to properly submit such transfer information within the required time period, the Corporation shall transmit through Mutual Fund Services such standing transfer information as the Corporation shall determine. Each day the Corporation will produce a report indicating the transfer instructions that have been received by the Corporation, if any, and, with respect to Fund/Serv Eligible Fund assets, if no instructions have been received, the standing instructions which will be submitted to the Mutual Fund Processor or Fund Member. Each day the Corporation will produce a report to the Receiving and Delivering Member, indicating the Fund/Serv Eligible Fund customer account asset transfers which have been confirmed or rejected by the Mutual Fund Processor or Fund Member in accordance with Section 16 of Subsection A of Rule 52. Such report will also indicate those transfers which the Mutual Fund Processor or Fund Member has not confirmed or rejected or which have been deleted. Each day the Corporation will produce a report to the Receiving and Delivering Member, indicating the IPS Eligible Products transfers which have been confirmed or rejected by the Insurance Carrier/Retirement Services Member in accordance with Section 6 of Rule 57, or which have been deleted.

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SEC. 12. The Corporation may also provide services to enable Delivering Members to initiate the transfer of:

(i) residual credit positions, which are received for the benefit of a customer's account by the Delivering Member after the ACAT process is completed or which, due to a restriction, were not included in the original asset transfer (hereinafter collectively referred to as "Residual Credits");

(ii) a partial account held by a Delivering Member (in the form of cash or securities), (hereinafter collectively referred to as "Partial Accounts");

(iii) cash in respect of fail positions for which delivery is unable to be completed, provided, however, that this transfer may only be initiated to the extent that the fail is between a Member and another Member (hereinafter collectively referred to as "Fail Reversals"); and

(iv) cash or securities mistakenly delivered as part of ~~the ACATS Service~~ **Service (hereinafter collectively referred to as "Reclaims")**, other than Fund/Serv Eligible Fund assets and positions eligible for processing at a Registered Clearing Agency with whom the Corporation has entered into an agreement relating to ~~the ACATS Service~~ (hereinafter referred to as an "ACAT RCA"); ~~provided, however, that this transfer may only be initiated to the extent that the delivery is between a Member and another Member (hereinafter collectively referred to as "Reclaims")~~.

Such transfers shall be processed as follows:

1. Transfers may be initiated by a Delivering Member by submitting to the Corporation such details as required by the Corporation from time to time within such time frame as established by the Corporation from time to time. The Corporation will reject a transfer if the details contain an edit or format error. The Corporation will notify the Delivering Member if a transfer is rejected and the Delivering Member must reinitiate the transfer as if it had never been previously submitted. If no edit errors or format errors are discovered by the Corporation in the asset data, details of the account will be reported to both the Delivering Member and the Receiving Member in such manner and by such time as established by the Corporation from time to time.

2. A Receiving Member may reject the transfer by submitting such information as determined by the Corporation by the time and in the manner specified by the Corporation on the same day as the transfer request is received or, in respect of Reclaim transfers, no later than two business days following the day the Reclaim transfer request is received. No action is required by the Receiving Member if it determines to accept the transfer. A Receiving Member may not submit corrections and a Delivering Member may not make adjustments to such transfer request, **except a Receiving Member may delete Fund/Serv Eligible Fund assets for Partial Accounts and Residual Credits.**

3. Settlement Date for all transfers covered by this section shall be one business day following the day the Corporation receives the transfer request unless:

- (i) the request is Reclaim transfer, in which case Settlement Date shall be one business day following the day the Receiving Member accepts the request or the Corporation deems the request accepted, or
- (ii) the request includes either options assets which are eligible for processing an ACAT RCA, or Fund/~~SERV~~Serv eligible-Eligible Fund assets, whereby the settlement date for all assets included in the transfer shall be two business days following the day the Corporation receives the transfer request.

SEC. 13. A Receiving Member may submit a request to a Delivering Member to initiate the transfer of a partial customer account, in such form as determined by the Corporation from time to time. Such request shall be delivered by the Corporation to the Delivering Member on the same day as received by the Corporation. Each day for a period not to exceed two days, the Corporation will produce a report, in such form as determined by the Corporation from time to time, indicating all such requests received by the Corporation. A Delivering Member must either reject a customer account transfer request by submitting a rejection to the Corporation in such form as determined by the Corporation from time to time, or submit to the Corporation detailed customer account asset data in such format as established by the Corporation from time to time. If a request is rejected, the Delivering Member must indicate the reason for the rejection. If the Delivering Member submits detailed account asset data, and the transfer is not rejected by the Receiving Member, Settlement Date for this transfer request will be one business day after the Delivering Member has submitted the asset account data unless the transfer contains options assets or Fund/~~SERV~~Serv eligible-Eligible Fund assets, in which case the settlement date for all assets will be two business days.

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SEC. 17. Each Member or participant of a QSD that requests a transfer through ~~the ACATS Service~~ (the "Requesting Firm") agrees to (i) indemnify and hold harmless the Member or participant of a QSD that accepts such transfer request (the "Accepting Firm") from and against any and all losses, claims, damages or liabilities (or actions in respect thereof) to which the Accepting Firm may become subject, under any provision of law, to the Accepting Firm's customer or to any other person, insofar as such losses, claims, damages or liabilities arise out of or are based upon an unauthorized or allegedly unauthorized transfer request or any inaccurate or allegedly inaccurate documentation or information, in any format, transmitted by the Requesting Firm through NSCC or ~~the ACATS Service~~ and (ii) reimburse the Accepting Firm for any legal or other expenses reasonably incurred by the Accepting Firm in connection with defending any such action or claim as such expenses are incurred. Each Requesting Firm agrees that an Accepting Firm accepting its transfer request through ~~the ACATS Service~~ shall be a third-party beneficiary of the above indemnification and

reimbursement obligations in respect of such request, and that such an Accepting Firm may assert any claim under these indemnification and reimbursement obligations as a third-party beneficiary directly against such Requesting Firm.

SEC. 18. The Corporation does not guaranty completion of ACATS transactions. In the event a Member fails to meet its settlement obligation to the Corporation:

- (1) For any transaction that entered the ACATS Settlement Accounting Operation but was subsequently exited from the ACATS Settlement Accounting Operation on ACATS settlement date, the transaction will be considered uncompleted and will be reversed against the original debit or credit value applied to their settlement account upon exit.<sup>4</sup>

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<sup>4</sup> The ACATS reversal for this transaction would be processed in the same way as a transaction that did not enter the ACATS Settlement Accounting Operation. The exception would be for a Fund/~~SERV~~ Serv Eligible Fund asset ~~(as defined in Section 8)~~, as NSCC tracks the completion of this asset on settlement date and would only reverse an uncompleted transaction.