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DATE:	JUNE 18, 2019
TO:	ALL PARTICIPANTS
ATTENTION:	MANAGING PARTNER/OFFICER; OPERATIONS PARTNER/OFFICER; MANAGER P&S DEPARTMENT; MANAGER DATA PROCESSING; CASHIER
FROM:	PRODUCT MANAGEMENT, EQUITIES CLEARANCE
SUBJECT:	PCF ENHANCEMENTS TO SUPPORT MULTIPLE BASKETS, ORDER CUSTOMIZATION, AND CLEARANCE OF ETFS WITH CORPORATE AND MUNICIPAL BOND COMPONENTS

As discussed with ETF Agents and Authorized Participants (APs) at the April 11, 2019 Industry Working Group (IWG) and throughout 2018/2019, subject to regulatory approval, NSCC would enhance the ETF Portfolio Composition File (PCF) service to (a) clearly differentiate baskets within the file based upon their intended use (e.g., pricing vs. trading), (b) ensure that baskets published on a non-unit basis are distinguished from those calculated on a unit basis, and (c) support clearing-eligibility for multiple basket types made available to any subscriber of the PCF associated with a single ETF listing.

The enhancements are in response to the SEC proposed rule 6c-11 (“Proposed ETF Rule”) that would change the regulatory framework for many ETFs. Under the Proposed ETF Rule, all ETFs that meet certain requirements would be able to use custom baskets – baskets of securities that deviate from a pro rata slice of the ETF’s shares – to create and redeem shares.

Project Overview

The project, which is currently in development, would take a phased approach to increase flexibility for order customization and submission of multiple basket types (e.g., trading, pricing, restricted, rebalanced, create and redeem only, and negotiated basket types). All basket types, other than pricing basket type, would be eligible for create/redeem processing, upon request, when the parent ETF trading CUSIP is eligible. Pricing baskets would not be eligible for create/redeem processing but would be available to all member subscribers of the standard PCF.

Subject to regulatory approval, Phase 1 would enhance the PCF to support new data elements for use in these multiple baskets, as well as new data fields, in preparation for receipt of customized rebalanced and negotiated orders. Phase 2 would allow for an expansion of clearing for eligible fixed income ETFs consisting of corporate and municipal underlying components.

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Finalized Timelines

Subject to regulatory approval, NSCC would schedule the following deployments:

Phase 1 - ETF Agent and AP testing for PCF Enhancements (Phase 1) will be available in the Participant Service Environment (PSE) (otherwise known as the PSE/U region) at the end of Q3 2019, with the production release on March 26, 2020.

All Phase 1 documents, full formats, and the Client Business Requirements Document are now posted to the DTCC Learning Center at:

<https://dtcclearning.com/products-and-services/equities-clearing/exchange-traded-fund-etf/etf-working-groups.html>

Phase 2 - Clearance of fixed income, corporate, and municipal ETFs will be available in the Participant Service Environment (PSE) (otherwise known as the PSE/U region) in mid-March 2020, with release to production on May 28, 2020.

Next Steps

Phase 1 – Publish Testing Guidelines and ETF Clearing Dashboard User Guide, September 2019.

Phase 2 – Publish scenarios and high-level requirements along with eligibility criteria. Draft will be published for review by the industry at the June 26, 2019 ETF Industry Working Group session.

For questions, contact your DTCC Relationship Manager or the undersigned at Peterjsmith@dtcc.com.

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