

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73358; File No. SR-NSCC-2014-09)

October 15, 2014

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 52 (Mutual Fund Services) and Addendum A (Fee Structure) with Respect to the DTCC Payment aXis Service, and to Make Certain Technical Changes

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on October 2, 2014, 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 NSCC. NSCC filed the proposed rule change pursuant to Section 19(b)(3)(A)³ of the Act and Rule 19b-4(f)(2)⁴ and (4)⁵ thereunder. The proposed rule change was effective upon filing with the Commission. 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 Rule 52 (Mutual Fund Services) and Addendum A (Fee Structure) of NSCC’s Rules & Procedures with respect

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(2).

⁵ 17 CFR 240.19b-4(f)(4).

to the DTCC Payment aXis service, and certain technical changes in connection therewith, as more fully described below. The text of the proposed rule change is available on NSCC's website at <http://www.dtcc.com/legal/sec-rule-filings.aspx>, at the principal office of NSCC, and at the Commission's Public Reference Room.

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

In its filing with the Commission, NSCC 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. NSCC has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

(1) Statement of Purpose

Background. NSCC's DTCC Payment aXis service ("Service")⁶ was initially approved by the Commission on December 9, 1992 ("1992 Rule Filing").⁷ In the 1992 Rule Filing, NSCC described that the new service would provide for the automation of payments of commissions owed in respect of mutual fund transactions between fund companies ("Funds") and their retail broker-dealers ("Distributors") and that NSCC's role in this new commission service would be to transmit data between the Funds (i.e., the commission payers) and the Distributors (i.e., the commission receivers). In 2005, NSCC expanded the

⁶ The Service was formerly known as "Mutual Fund Commission Settlement".

⁷ Securities Exchange Act Release No. 31579 (December 9, 1992), 57 FR 60017 (December 17, 1992) (SR-NSCC-1992-13).

scope of the Service to permit Distributors to transmit fee data through NSCC to other Distributors, and to settle the fee payments in respect thereof, expanding the Service to allow for more than the exchange of commission-related information from Funds to Distributors.⁸

On October 22, 2012, NSCC filed a proposed rule change (“2012 Rule Filing”),⁹ which, in particular and relevant to the current proposed rule change, introduced a unique data processing flow to the Service.¹⁰ In the 2012 Rule Filing, NSCC explained that unlike the processing flow applicable to all other commission and fee payment types processed through the Service, instructions for the payment of 12b-1 fees to a Distributor with regard to investor accounts held on an omnibus account basis at the Fund (“12b-1 Omnibus Fees”) must in all events be initiated by the Distributor seeking payment. Having received the payment instruction in proper form from the Distributor, NSCC would then transmit such payment instruction to the contra-side Fund. The contra-side Fund could then either (i)

⁸ See Securities Exchange Act Release No. 52458 (September 16, 2005), 70 FR 56200 (September 26, 2005) (SR-NSCC-2005-10).

⁹ Securities Exchange Act Release No. 68159 (November 5, 2012), 77 FR 67410 (November 9, 2012) (SR-NSCC-2012-08).

¹⁰ The 2012 Rule Filing also (i) renamed the Service from “Mutual Fund Commission Settlement” to the current “DTCC Payment aXis”, (ii) specified that the Service permits for the flow of commission and other fee data, and the settlement of payments thereof, among users of the Service without regard to whether the flow of funds is from the Fund to the Distributor, from the Distributor to the Fund, from a Distributor to another Distributor, or otherwise, (iii) specified that transmission of commission and other fee data with regard to investor accounts held on an omnibus account basis was included within the suite of functionalities offered by the Service and (iv) amended the fee structure with respect to the fees charged by NSCC with regard to the Service.

confirm or reject the payment instruction, or (ii) release payment (either with or without confirmation).

Currently, NSCC is preparing to add three additional fee types to the list of commission and fee payments that may be processed through DTCC Payment aXis. The three fee types are known in the Funds industry as Sub-Accounting Service Fees, Retirement/Bank Trust Service Fees and Networking Service Fees. All three fee types will be subject to the same processing flow as 12b-1 Omnibus Fees, where the party seeking payment must initiate the transaction (“Payee Initiated Processing Flow”).¹¹

The Proposed Rule Change.

Commission and Other Fee Payments between DTCC Payment aXis Users.

Because the 2012 Rule Filing described the newly introduced Payee Initiated Processing Flow as having applicability only with regard to 12b-1 Omnibus Fees, NSCC proposes to amend Rule 52 to remove the 12b-1 Omnibus Fee limitation. In connection with this amendment, NSCC will also specify that the Payee Initiated Processing Flow may also apply to fee types where any party, including a Fund, is the recipient of the payment. Upon effectiveness of this proposed rule change, going forward NSCC will issue an Important Notice to its DTCC Payment aXis users regarding which commission and other fee types will be subject to the Payee Initiated Processing Flow. These rule changes will be effective immediately, with implementation for the processing of the three additional fee types named above to begin November 24, 2014, or otherwise, at such later date thereafter as NSCC may announce through Important Notice.

¹¹ Networking Service Fees may also be processed using the traditional process flow, at the paying Fund’s discretion.

NSCC Charges. NSCC is also amending Addendum A (NSCC's Fee Structure) with regard to DTCC Payment aXis. Addendum A will be amended as follows: the DTCC Payment aXis fee category currently entitled "Non-Omnibus" will be renamed "Commission & Fee Settlement", and the DTCC Payment aXis fee category currently entitled "Omnibus" will be renamed "Invoicing & Fee Settlement", to better conform to the industry naming convention.

In addition, "detail records" transaction charges, currently charged within the "Omnibus" fee category (being renamed "Invoicing & Fee Settlement"), are being reduced by NSCC and will be charged under a separate fee structure to match the fee structure applicable to "Commission & Fee Settlement" (currently named, "Non-Omnibus"), except that there will be no minimum charge applicable to detail records transactions.¹² These rule changes will be effective immediately, with NSCC's implementation of the new detail records transaction fee structure to begin November 24, 2014, or at such later date thereafter as NSCC may announce through Important Notice.

Technical Changes. In connection with the above changes to NSCC's Rules & Procedures, NSCC is also making four technical changes as follows: First, in Rule 52, to remove the footnote in the heading explaining that the "Mutual Fund Services" were formerly known as the "Mutual Fund Settlement, Entry and Registration Verification Service" (the name change occurred several years ago, and NSCC does not believe that the explanation is required any longer); second, in Rule 52, to revise the phrasing for the term

¹² For DTCC Payment aXis Non-Omnibus transactions, NSCC charges its members \$.30 per hundred records for the first 500,000 records submitted each month, with a minimum charge of \$50. This \$50 minimum charge will not apply to detail records transactions.

“Omnibus” for purposes of clarity; third, in Rule 52, to merge Subsections 3 and 4 of Section C (DTCC Payment aXis) into one Subsection as the two Subsections are substantially related; and four, in Addendum A, to add the subheading “Transaction Fees” under the current “Non-Omnibus” heading (being renamed “Commission & Fee Settlement), which subheading was inadvertently omitted in the 2012 Rule Filing. There are no new NSCC charges associated with this technical change to Addendum A. These rule changes will be effective immediately.

(2) **Statutory Basis**

NSCC believes that the proposed rule change is consistent with the requirements of the Act, and the rules and regulations thereunder applicable to NSCC. In particular, the proposed rule change is consistent with (i) Section 17A(b)(3)(F)¹³ of the Act because it provides a mechanism for members to communicate commission and fee payment instructions and to settle payments between themselves in a standardized and automated form, fostering cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, and (ii) Section 17A(b)(3)(D)¹⁴ of the Act because it amends the service fees NSCC charges in connection with use of the Service, which helps to provide for the equitable allocation of reasonable dues, fees and other charges among members in connection with use of the Service. In addition, the proposed rule change will be implemented consistently with the safeguarding of securities and funds in NSCC’s custody or control or for which NSCC is responsible because the proposed rule change applies solely to non-guaranteed services and also solely with respect commission

¹³ 15 U.S.C. 78q-1(b)(3)(F).

¹⁴ 15 U.S.C. 78q-1(b)(3)(D).

and fee payments between or among Funds and their distribution partners. Accordingly, the proposed rule change does not affect the safeguarding of securities or funds in NSCC's custody or control or for which NSCC is responsible.

B. Self-Regulatory Organization's Statement on Burden on Competition

NSCC does not believe that the proposed rule change will have any impact, or impose any burden on competition.

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

Written comments relating to the proposed rule change have not yet been solicited or received. 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) of the Act¹⁵ and paragraph (f) of Rule 19b-4¹⁶ 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:

¹⁵ 15 U.S.C. 78s(b)(3)(A).

¹⁶ 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. Please include File No. SR-NSCC-2014-09 on the subject line.

Paper Comments:

- Send in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC, 20549-1090.

All submissions should refer to File No. SR-NSCC-2014-09. 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 NSCC's website at (<http://www.dtcc.com/legal/sec-rule-filings.aspx>).

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-NSCC-2014-09 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.¹⁷

Kevin M. O'Neill
Deputy Secretary

¹⁷ 17 CFR 200.30-3(a)(12).