

Required fields are shown with yellow backgrounds and asterisks.

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2020 - * 011

Amendment No. (req. for Amendments *)

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 type="checkbox"/> 19b-4(f)(4)	
			<input checked="" 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) *

☐

Section 806(e)(2) *

☐

Section 3C(b)(2) *

☐

Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document

**Description**

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

Modify the Clearing Fund Maintenance Fee

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 * W. Carson Last Name * McLean

Title * Executive Director and Associate General Counsel

E-mail * wcmclean@dtcc.com

Telephone * (202) 383-2661 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 06/16/2020

By Nikki Poulos

(Name *)

Managing Director and Deputy General Counsel

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.

npoulos@dtcc.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

Form 19b-4 Information *

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

Add Remove View

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

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

Add Remove View

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

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

Add Remove View

Exhibit Sent As Paper Document

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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

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

Exhibit 4 - Marked Copies

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

Exhibit 5 - Proposed Rule Text

Add Remove View

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

Partial Amendment

Add Remove View

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 text of the changes to the Rules & Procedures (“Rules”) of National Securities Clearing Corporation (“NSCC”) are annexed hereto as Exhibit 5.¹

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Clearing Agency

The proposed rule change was approved by the Businesses, Technology and Operations Committee of NSCC’s Board of Directors on June 16, 2020.

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

(a) Purpose

The purpose of the proposed rule change is to modify the existing NSCC Clearing Fund Maintenance Fee (“Maintenance Fee”) set forth in Addendum A of the Rules.²

Maintenance Fee

The Maintenance Fee was implemented in 2016 pursuant to a proposed rule change (“2016 Rule Change”) in order to (i) diversify NSCC’s revenue sources, mitigating NSCC’s dependence on revenues driven by trading volumes, and (ii) add a stable revenue source that would contribute to NSCC’s operating margin by offsetting increasing costs and expenses.³ The fee is charged to all NSCC Members and Limited Members that are required to make deposits to the NSCC Clearing Fund (collectively, “Members”) in proportion to the Member’s average monthly cash deposit to the Clearing Fund.

Since the 2016 Rule Change, the Maintenance Fee has been calculated monthly, in arrears, as the product of (A) 0.25 percent and (B) the average of the Member’s actual cash deposit to the NSCC Clearing Fund as of the end of each day of the month, multiplied by the number of days in that month and divided by 360. However, by its terms, the fee is waived if the

¹ Capitalized terms not defined herein are defined in the Rules available at www.dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf.

² Addendum A, Rules, supra note 1.

³ Securities Exchange Act Release No. 78525 (August 9, 2016), 81 FR 54146 (August 15, 2016) (SR-NSCC-2016-002).

monthly rate of return on NSCC's investment of the cash portion of the Clearing Fund was less than 0.25 percent for the month ("Waiver Provision").

NSCC represents that the Waiver Provision was included for the benefit of Members. NSCC believed that if its monthly rate of return on the investment of cash from the Clearing Fund was less than 0.25 percent, then Members would likely be experiencing similarly low interest income on their deposits, including excess reserves, if applicable; in which case, NSCC would waive the fee. Although this approach exposed NSCC to the risk of not receiving revenue from the Maintenance Fee at a time of increased costs, NSCC did not believe that such an exposure would be common, significant, or long-term. Moreover, at the time of adoption, NSCC's default liquidity resources were not as diversified and robust as they are now, nor were such resources as costly or expensive to secure and maintain, as described below.

Increased Costs and Expenses

Due to the coronavirus global pandemic and overall reaction by the financial markets, NSCC's cost of funding has risen sharply in 2020, particularly for three of NSCC's key default liquidity resources: NSCC's committed 364-day line-of-credit facility with a consortium of banks ("LOC");⁴ the proceeds of the issuance and private placement of short-term, unsecured notes in the form of commercial paper and extendable notes ("CP");⁵ and proceeds of the issuance of medium-term notes ("MTNs").⁶ This year's annual renewal of the LOC cost substantially more than past renewals due to a significant fee increase that NSCC had to pay to the lenders in order for NSCC to reach its target commitment size in the current economic environment. Meanwhile, for the CP program and the MTNs, the spread between the CP rates and MTN coupons that NSCC must pay and the interest it earns on the cash proceeds from those liquidity resources has widened significantly, making the resources considerably more expensive than they have been or would have been in past economic conditions.

Collectively, the unexpected increases in cost and expense to secure and maintain those default liquidity resources has added millions of dollars to NSCC's non-operating expense. If unaddressed, the increases could negatively impact NSCC's 2020 financial results and its access to default liquidity resources. A deteriorating operating margin could jeopardize NSCC's credit ratings. A downgrade to an NSCC credit rating could further increase such costs and expenses, but more importantly, could reduce the overall availability of default liquidity resources to NSCC, if investors or lending banks reduce their current levels of engagement with NSCC.

⁴ See Securities Exchange Act Release No. 80605 (May 5, 2017), 82 FR 21850 (May 10, 2017) (SR-NSCC-2017-802).

⁵ See Securities Exchange Act Release Nos. 75730 (August 19, 2015), 80 FR 51638 (August 25, 2015) (SR-NSCC-2015-802); 82676 (February 9, 2018), 83 FR 6912 (February 15, 2018) (SR-NSCC-2017-807).

⁶ See Securities Exchange Act Release No. 87912 (January 8, 2020), 85 FR 2187 (January 14, 2020) (SR-NSCC-2019-802).

Modifications to the Maintenance Fee

To help address this immediate issue and better position NSCC going forward, with respect to its ability to fund its default liquidity resources in various economic environments, as well as to improve the overall functioning of the Maintenance Fee, NSCC is modifying the fee in three ways. First, NSCC is removing the Waiver Provision. Second, instead of using the fixed rate of 0.25 percent when calculating the Maintenance Fee, NSCC will calculate the fee using the corresponding month's average Interest Rate on Excess Reserves (i.e., the IOER rate) that is determined by the Board of Governors of the Federal Reserve System ("Federal Reserve").⁷ Third, NSCC is setting a ceiling of 0.25 percent and a floor of 0.00 percent on the IOER rate used in the fee calculation.

NSCC is removing the Waiver Provision so that NSCC will be able to generate revenue from the Maintenance Fee even if NSCC's monthly rate of return on the investment of cash deposits from the Clearing Fund is less than 0.25 percent. The ability to generate such revenue under such circumstances is important in helping NSCC offset its costs and expenses in any economic environment.

NSCC is replacing the current fixed rate of 0.25 percent with the month's average IOER rate when calculating the Maintenance Fee because the IOER rate is (i) publicly available, well established, and a widely used benchmark (i.e., the rate is transparent); (ii) determined by the Federal Reserve (i.e., the rate is reliable); and (iii) the same rate that NSCC receives on the cash deposits it holds in its cash deposit account at the Federal Reserve Bank of New York (i.e., the rate is impartial).

NSCC is setting a ceiling of 0.25 percent on the IOER rate that it uses to calculate the Maintenance Fee so that Members will not be charged an amount greater than what is possible under the original calculation. However, it is setting a floor of 0.00 percent so if the IOER rate turns negative, NSCC will not owe Members an amount based on the calculation.

Changes to the Rules

To effectuate the changes described above, Subsection G (Clearing Fund Maintenance Fee) of Section V (Pass-Through and Other Fees) of Addendum A (Fee Structure) to the Rules will be modified to (i) remove the Waiver Provision, (ii) replace the existing fixed rate of 0.25 percent with the month's average IOER rate, and (iii) set a ceiling of 0.25 percent and a floor of 0.00 percent on the IOER rate used in the fee's calculation.

Implementation Timeframe

The above described changes to the Maintenance Fee will take effect immediately upon filing with the Commission, with the next assessment of the fee using those changes being for the month of July 2020.

⁷ Policy Tools, Interest on Required Reserve Balances and Excess Balances, <https://www.federalreserve.gov/monetarypolicy/reqresbalances.htm>.

(b) Statutory Basis

Section 17A(b)(3)(D) of the Securities Exchange Act of 1934 (“Act”)⁸ requires that NSCC’s Rules provide for the equitable allocation of reasonable dues, fees, and other charges among its participants. NSCC believes that the changes to the Maintenance Fee are consistent with this provision of the Act.

As described above, the proposal will modify the existing Maintenance Fee in three ways: (i) removing the Waiver Provision, (ii) calculating the fee using the month’s average IOER rate, instead of the current fixed rate of 0.25 percent, and (iii) setting a ceiling of 0.25 percent and a floor of 0.00 percent on the IOER rate used in the calculation.

Because these changes do not alter how the Maintenance Fee is currently allocated (i.e., charged) to Members, NSCC believes the fee will continue to be equitably allocated. More specifically, as mentioned above, the Maintenance Fee is and will continue to be charged to all Members in proportion to the Member’s average monthly cash deposit to the Clearing Fund. As such, and as is currently the case, Members that make greater use of NSCC’s guaranteed services or which have activity in those services that present greater risk to NSCC will generally be subject to a larger Maintenance Fee because such Members will typically be required to maintain larger Clearing Fund deposits pursuant to the Rules.⁹ Conversely, Members that use NSCC’s guaranteed services less or which have activity that presents less risk will generally be subject to a smaller Maintenance Fee because such Members will typically be required to maintain smaller Clearing Fund deposits pursuant to the Rules.¹⁰ The described changes do not adjust that allocation. For this reason, NSCC believes the Maintenance Fee will continue to be equitably allocated among Members.

Similarly, NSCC believes that the Maintenance Fee will continue to be a reasonable fee under the described changes. First, use of the IOER rate in calculating the fee is reasonable because, as described above, the IOER rate is (i) transparent, (ii) reliable, and (iii) impartial. Second, use of the IOER rate, coupled with a ceiling of 0.25 percent, will not only ensure that Members are not assessed an amount greater than the original calculation, but that Members will be charged less at times when the IOER rate is less than 0.25 percent. Third, instituting a floor of 0.00 percent will avoid the unreasoned situation of NSCC having to pay Members based on calculating the fee with a negative IOER rate. Finally, although removal of the Waiver Provision means that Members could be assessed a Maintenance Fee at times when they may not otherwise have been assessed the fee, the removal of this provision enables NSCC to collect needed revenue from the fee in almost any economic environment. For this reason, NSCC believes the Maintenance Fee will continue to be reasonable.

⁸ 15 U.S.C. 78q-1(b)(3)(D).

⁹ See Rule 4 and Procedure XV, Rules, supra note 1.

¹⁰ Id.

Based on the forgoing, NSCC believes the proposed rule change is consistent with Section 17A(b)(3)(D).¹¹

4. Clearing Agency's Statement on Burden on Competition

NSCC does not believe that the changes to the Maintenance Fee will have an impact on competition. First, as described above, the Maintenance Fee is charged ratably based on Members' use of NSCC's guaranteed services, as reflected in Members' cash deposits to the Clearing Fund. Thus, the fee is designed to be reflective of each Member's individual activity at NSCC.

Second, NSCC does not believe the changes to set a ceiling of 0.25 percent and a floor of 0.00 percent on the IOER rate used in calculating the Maintenance Fee will have any impact on competition because (i) a ceiling of 0.25 percent means that Members cannot be assessed an amount greater than what could have been assessed under the original calculation of the fee, and (ii) a floor of 0.00 percent means that NSCC will not have to pay Members if the fee were to be calculated with a negative IOER rate. In other words, both of these changes maintain the status quo in how the fee operates in these two respects.

Third, appreciating that the value of a dollar is not consistent for each Member, the change to remove the Waiver Provision could be a perceived burden on competition because Members could be assessed a fee at a time when they would not otherwise have been under the original calculation. However, the change to calculate the Maintenance Fee using the month's average IOER rate, instead of the current fixed rate of 0.25 percent, could relieve a competitive burden or promote competition because Members could be assessed a smaller fee than what may have been assessed using the original calculation. Members could choose to direct such savings to competitive aspects of their business. Therefore, in making these two changes together, NSCC believes the competitive aspects are possibly offsetting.

Notwithstanding the above, if removal of the Waiver Position, and the resulting imposition of the Maintenance Fee at a time when a Member would not have otherwise been assessed the fee, would prove to be a greater competitive burden for any one Member than the counterbalancing aspects of calculating the fee using the month's average IOER rate, instead of the current fixed rate of 0.25 percent, NSCC believes such a burden would be necessary and appropriate. The burden would be necessary because it is essential that NSCC offset some of its costs and expenses with revenue generated from the Maintenance Fee. As described above, not doing so could adversely affect NSCC's credit ratings, which could further increase funding or, possibly, decrease the availability of crucial liquidity resources for NSCC. The burden would be appropriate because, as described above, the Maintenance Fee is calculated, using a balanced formula, to assess a fee that is reflective of the Member's use of NSCC's guaranteed services, so that NSCC can defray some of its costs and expenses in providing those services.

¹¹ 15 U.S.C. 78q-1(b)(3)(D).

5. 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.

6. Extension of Time Period for Commission Action

NSCC does not consent to an extension of the time period specified in Section 19(b)(2) of the Act¹² for Commission action.

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

(a) The proposed rule change is to take effect immediately upon filing pursuant to Section 19(b)(3)(A) of the Act¹³ and subparagraph (f)(2) of Rule 19b-4 under the Act.¹⁴

(b) The proposed rule change establishes or changes a due, fee, or other charge.

(c) Not applicable.

(d) Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

¹² 15 U.S.C. 78s(b)(2).

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f)(2).

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 – Confidential Supporting Information. ***Omitted and filed separately with the Commission. Confidential treatment of this Exhibit 3 is being requested pursuant to 17 CFR 240.24b-2.***

Exhibit 4 – Not applicable

Exhibit 5 – Changes to Subsection G (Clearing Fund Maintenance Fee) of Section V (Pass-Through and Other Fees) of Addendum A (Fee Structure) to the Rules.

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[____]; File No. SR-NSCC-2020-011)

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Modify the Clearing Fund Maintenance Fee

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 June __, 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) of the Act³ and Rule 19b-4(f)(2) thereunder.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The proposed rule change consists of amendments to the Clearing Fund Maintenance Fee (“Maintenance Fee”) set forth in Addendum A of the NSCC Rules & Procedures (“Rules”).⁵

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 Capitalized terms not defined herein are defined in the Rules available at www.dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf.

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

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

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

1. Purpose

The purpose of the proposed rule change is to modify the existing Maintenance Fee set forth in Addendum A of the Rules.⁶

Maintenance Fee

The Maintenance Fee was implemented in 2016 pursuant to a proposed rule change ("2016 Rule Change") in order to (i) diversify NSCC's revenue sources, mitigating NSCC's dependence on revenues driven by trading volumes, and (ii) add a stable revenue source that would contribute to NSCC's operating margin by offsetting increasing costs and expenses.⁷ The fee is charged to all NSCC Members and Limited Members that are required to make deposits to the NSCC Clearing Fund (collectively,

⁶ Addendum A, Rules, supra note 5.

⁷ Securities Exchange Act Release No. 78525 (August 9, 2016), 81 FR 54146 (August 15, 2016) (SR-NSCC-2016-002).

“Members”) in proportion to the Member’s average monthly cash deposit to the Clearing Fund.

Since the 2016 Rule Change, the Maintenance Fee has been calculated monthly, in arrears, as the product of (A) 0.25 percent and (B) the average of the Member’s actual cash deposit to the NSCC Clearing Fund as of the end of each day of the month, multiplied by the number of days in that month and divided by 360. However, by its terms, the fee is waived if the monthly rate of return on NSCC’s investment of the cash portion of the Clearing Fund was less than 0.25 percent for the month (“Waiver Provision”).

NSCC represents that the Waiver Provision was included for the benefit of Members. NSCC believed that if its monthly rate of return on the investment of cash from the Clearing Fund was less than 0.25 percent, then Members would likely be experiencing similarly low interest income on their deposits, including excess reserves, if applicable; in which case, NSCC would waive the fee. Although this approach exposed NSCC to the risk of not receiving revenue from the Maintenance Fee at a time of increased costs, NSCC did not believe that such an exposure would be common, significant, or long-term. Moreover, at the time of adoption, NSCC’s default liquidity resources were not as diversified and robust as they are now, nor were such resources as costly or expensive to secure and maintain, as described below.

Increased Costs and Expenses

Due to the coronavirus global pandemic and overall reaction by the financial markets, NSCC’s cost of funding has risen sharply in 2020, particularly for three of NSCC’s key default liquidity resources: NSCC’s committed 364-day line-of-credit

facility with a consortium of banks (“LOC”);⁸ the proceeds of the issuance and private placement of short-term, unsecured notes in the form of commercial paper and extendable notes (“CP”);⁹ and proceeds of the issuance of medium-term notes (“MTNs”).¹⁰ This year’s annual renewal of the LOC cost substantially more than past renewals due to a significant fee increase that NSCC had to pay to the lenders in order for NSCC to reach its target commitment size in the current economic environment. Meanwhile, for the CP program and the MTNs, the spread between the CP rates and MTN coupons that NSCC must pay and the interest it earns on the cash proceeds from those liquidity resources has widened significantly, making the resources considerably more expensive than they have been or would have been in past economic conditions.

Collectively, the unexpected increases in cost and expense to secure and maintain those default liquidity resources has added millions of dollars to NSCC’s non-operating expense. If unaddressed, the increases could negatively impact NSCC’s 2020 financial results and its access to default liquidity resources. A deteriorating operating margin could jeopardize NSCC’s credit ratings. A downgrade to an NSCC credit rating could further increase such costs and expenses, but more importantly, could reduce the overall availability of default liquidity resources to NSCC, if investors or lending banks reduce their current levels of engagement with NSCC.

⁸ See Securities Exchange Act Release No. 80605 (May 5, 2017), 82 FR 21850 (May 10, 2017) (SR-NSCC-2017-802).

⁹ See Securities Exchange Act Release Nos. 75730 (August 19, 2015), 80 FR 51638 (August 25, 2015) (SR-NSCC-2015-802); 82676 (February 9, 2018), 83 FR 6912 (February 15, 2018) (SR-NSCC-2017-807).

¹⁰ See Securities Exchange Act Release No. 87912 (January 8, 2020), 85 FR 2187 (January 14, 2020) (SR-NSCC-2019-802).

Modifications to the Maintenance Fee

To help address this immediate issue and better position NSCC going forward, with respect to its ability to fund its default liquidity resources in various economic environments, as well as to improve the overall functioning of the Maintenance Fee, NSCC is modifying the fee in three ways. First, NSCC is removing the Waiver Provision. Second, instead of using the fixed rate of 0.25 percent when calculating the Maintenance Fee, NSCC will calculate the fee using the corresponding month's average Interest Rate on Excess Reserves (i.e., the IOER rate) that is determined by the Board of Governors of the Federal Reserve System ("Federal Reserve").¹¹ Third, NSCC is setting a ceiling of 0.25 percent and a floor of 0.00 percent on the IOER rate used in the fee calculation.

NSCC is removing the Waiver Provision so that NSCC will be able to generate revenue from the Maintenance Fee even if NSCC's monthly rate of return on the investment of cash deposits from the Clearing Fund is less than 0.25 percent. The ability to generate such revenue under such circumstances is important in helping NSCC offset its costs and expenses in any economic environment.

NSCC is replacing the current fixed rate of 0.25 percent with the month's average IOER rate when calculating the Maintenance Fee because the IOER rate is (i) publicly available, well established, and a widely used benchmark (i.e., the rate is transparent); (ii) determined by the Federal Reserve (i.e., the rate is reliable); and (iii) the same rate that

¹¹ Policy Tools, Interest on Required Reserve Balances and Excess Balances, <https://www.federalreserve.gov/monetarypolicy/reqresbalances.htm>.

NSCC receives on the cash deposits it holds in its cash deposit account at the Federal Reserve Bank of New York (i.e., the rate is impartial).

NSCC is setting a ceiling of 0.25 percent on the IOER rate that it uses to calculate the Maintenance Fee so that Members will not be charged an amount greater than what is possible under the original calculation. However, it is setting a floor of 0.00 percent so if the IOER rate turns negative, NSCC will not owe Members an amount based on the calculation.

Changes to the Rules

To effectuate the changes described above, Subsection G (Clearing Fund Maintenance Fee) of Section V (Pass-Through and Other Fees) of Addendum A (Fee Structure) to the Rules will be modified to (i) remove the Waiver Provision, (ii) replace the existing fixed rate of 0.25 percent with the month's average IOER rate, and (iii) set a ceiling of 0.25 percent and a floor of 0.00 percent on the IOER rate used in the fee's calculation.

Implementation Timeframe

The above described changes to the Maintenance Fee will take effect immediately upon filing with the Commission, with the next assessment of the fee using those changes being for the month of July 2020.

2. Statutory Basis

Section 17A(b)(3)(D) of the Act¹² requires that NSCC's Rules provide for the equitable allocation of reasonable dues, fees, and other charges among its participants.

¹² 15 U.S.C. 78q-1(b)(3)(D).

NSCC believes that the changes to the Maintenance Fee are consistent with this provision of the Act.

As described above, the proposal will modify the existing Maintenance Fee in three ways: (i) removing the Waiver Provision, (ii) calculating the fee using the month's average IOER rate, instead of the current fixed rate of 0.25 percent, and (iii) setting a ceiling of 0.25 percent and a floor of 0.00 percent on the IOER rate used in the calculation.

Because these changes do not alter how the Maintenance Fee is currently allocated (i.e., charged) to Members, NSCC believes the fee will continue to be equitably allocated. More specifically, as mentioned above, the Maintenance Fee is and will continue to be charged to all Members in proportion to the Member's average monthly cash deposit to the Clearing Fund. As such, and as is currently the case, Members that make greater use of NSCC's guaranteed services or which have activity in those services that present greater risk to NSCC will generally be subject to a larger Maintenance Fee because such Members will typically be required to maintain larger Clearing Fund deposits pursuant to the Rules.¹³ Conversely, Members that use NSCC's guaranteed services less or which have activity that presents less risk will generally be subject to a smaller Maintenance Fee because such Members will typically be required to maintain smaller Clearing Fund deposits pursuant to the Rules.¹⁴ The described changes do not adjust that allocation. For this reason, NSCC believes the Maintenance Fee will continue to be equitably allocated among Members.

¹³ See Rule 4 and Procedure XV, Rules, supra note 5.

¹⁴ Id.

Similarly, NSCC believes that the Maintenance Fee will continue to be a reasonable fee under the described changes. First, use of the IOER rate in calculating the fee is reasonable because, as described above, the IOER rate is (i) transparent, (ii) reliable, and (iii) impartial. Second, use of the IOER rate, coupled with a ceiling of 0.25 percent, will not only ensure that Members are not assessed an amount greater than the original calculation, but that Members will be charged less at times when the IOER rate is less than 0.25 percent. Third, instituting a floor of 0.00 percent will avoid the unreasoned situation of NSCC having to pay Members based on calculating the fee with a negative IOER rate. Finally, although removal of the Waiver Provision means that Members could be assessed a Maintenance Fee at times when they may not otherwise have been assessed the fee, the removal of this provision enables NSCC to collect needed revenue from the fee in almost any economic environment. For this reason, NSCC believes the Maintenance Fee will continue to be reasonable.

Based on the forgoing, NSCC believes the proposed rule change is consistent with Section 17A(b)(3)(D).¹⁵

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

NSCC does not believe that the changes to the Maintenance Fee will have an impact on competition. First, as described above, the Maintenance Fee is charged ratably based on Members' use of NSCC's guaranteed services, as reflected in Members' cash deposits to the Clearing Fund. Thus, the fee is designed to be reflective of each Member's individual activity at NSCC.

¹⁵ 15 U.S.C. 78q-1(b)(3)(D).

Second, NSCC does not believe the changes to set a ceiling of 0.25 percent and a floor of 0.00 percent on the IOER rate used in calculating the Maintenance Fee will have any impact on competition because (i) a ceiling of 0.25 percent means that Members cannot be assessed an amount greater than what could have been assessed under the original calculation of the fee, and (ii) a floor of 0.00 percent means that NSCC will not have to pay Members if the fee were to be calculated with a negative IOER rate. In other words, both of these changes maintain the status quo in how the fee operates in these two respects.

Third, appreciating that the value of a dollar is not consistent for each Member, the change to remove the Waiver Provision could be a perceived burden on competition because Members could be assessed a fee at a time when they would not otherwise have been under the original calculation. However, the change to calculate the Maintenance Fee using the month's average IOER rate, instead of the current fixed rate of 0.25 percent, could relieve a competitive burden or promote competition because Members could be assessed a smaller fee than what may have been assessed using the original calculation. Members could choose to direct such savings to competitive aspects of their business. Therefore, in making these two changes together, NSCC believes the competitive aspects are possibly offsetting.

Notwithstanding the above, if removal of the Waiver Position, and the resulting imposition of the Maintenance Fee at a time when a Member would not have otherwise been assessed the fee, would prove to be a greater competitive burden for any one Member than the counterbalancing aspects of calculating the fee using the month's average IOER rate, instead of the current fixed rate of 0.25 percent, NSCC believes such

a burden would be necessary and appropriate. The burden would be necessary because it is essential that NSCC offset some of its costs and expenses with revenue generated from the Maintenance Fee. As described above, not doing so could adversely affect NSCC's credit ratings, which could further increase funding or, possibly, decrease the availability of crucial liquidity resources for NSCC. The burden would be appropriate because, as described above, the Maintenance Fee is calculated, using a balanced formula, to assess a fee that is reflective of the Member's use of NSCC's guaranteed services, so that NSCC can defray some of its costs and expenses in providing those services.

(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) of the Act¹⁶ and paragraph (f) of Rule 19b-4 thereunder.¹⁷ 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.

¹⁶ 15 U.S.C. 78s(b)(3)(A).

¹⁷ 17 CFR 240.19b-4(f).

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NSCC-2020-011 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-2020-011. 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-2020-011 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.¹⁸

Secretary

¹⁸ 17 CFR 200.30-3(a)(12).

EXHIBIT 3

CONFIDENTIAL SUPPORTING INFORMATION FOR
PROPOSED RULE CHANGE SR-NSCC-2020-011

REMAINDER OF PAGE REDACTED IN ITS ENTIRETY

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EXHIBIT 5



**NATIONAL
SECURITIES
CLEARING
CORPORATION**

RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

Underlined and boldface text indicates proposed added language

~~Strikethrough and boldface text~~ indicates proposed deleted language

ADDENDUM A

NATIONAL SECURITIES CLEARING CORPORATION

FEE STRUCTURE

* * * *

V. PASS-THROUGH AND OTHER FEES

* * * *

G. Clearing Fund Maintenance Fee

A monthly fee calculated, in arrears, as the product of ~~0.25%~~ **(A) the month's average Interest Rate on Excess Reserves (IOER rate) determined by the Board of Governors of the Federal Reserve System, but at no time greater than 0.25% or less than 0.00%,** and **(B) the** average of each Member's (or Limited Member's, if applicable) cash deposit balance in the Clearing Fund, as of the end of each day, for the month, multiplied by the number of days for that month and divided by 360; ~~provided that, the investment rate of return on investment of the cash deposit balance in the Clearing Fund for that month is either equal to or greater than 0.25%. No fee will be charged for any month in which the monthly rate of return on investment of the cash deposit balance in the Clearing Fund is less than 0.25%.~~

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