

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-95021; File No. SR-NSCC-2022-007)

June 1, 2022

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Revise the Voluntary Termination Provisions of the NSCC Rules for Limited Members

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 May 27, 2022, 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)³ of the Act and subparagraph (f)(6)⁴ 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 of NSCC consists of modifications to NSCC’s Rules & Procedures (the “Rules”)⁵ to revise the voluntary termination provisions of the Rules in order to provide that a Limited Member may be deemed to have voluntarily terminated its

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)(6).

⁵ Capitalized terms not defined herein are defined in the Rules, available at https://dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf.

membership if NSCC is unable to contact the Limited Member's authorized representatives, and the Limited Member has not used NSCC's services for at least 6 months. The proposed changes are described in greater detail below.

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 the voluntary termination provisions of the Rules in order to provide that a Limited Member may be deemed to have voluntarily terminated its membership if NSCC is unable to contact an authorized representative of the Limited Member, as designated by the participant pursuant to Rule 5,⁶ and there has been no activity in the account by the participant for at least 6 months. The proposed changes are described in greater detail below.

(i) *NSCC Membership Types/Limited Members*

⁶ See Rule 5, Section 2, supra note 5, which requires that a Limited Member appoint a representative that is duly authorized in the name and on behalf of the Limited Member to sign all instruments, correct errors and to perform such other duties as may be required under the Rules and the Procedures and to transact all business requisite in connection with the operations of NSCC.

NSCC has several types of membership with different access levels to services.⁷ Generally, such membership types can be categorized into “Members” which are full-service participants that have access to NSCC’s central counterparty services and “Limited Members” whose access to services is limited to certain services by membership type specified by NSCC.⁸ The services available for Limited Members are “non-guaranteed” services – meaning that NSCC does not act as a central counterparty or guarantee payments for transactions conducted through these services.⁹ If a Limited Member using non-guaranteed services fails to pay for a transaction at settlement, NSCC does not guarantee the payment and may reverse in whole or in part any credit previously given to the contra side.¹⁰ As a result, NSCC bears less risk for payments relating to non-guaranteed services than it does for payments relating to its guaranteed services.

(ii) NSCC Termination Provisions

NSCC has several Rules relating to the termination of a Limited Member’s membership. Those Rules include provisions that allow NSCC to terminate the membership of a Limited Member involuntarily (i.e., “cease to act”) if the Limited Member violates the Rules or in certain other circumstances listed in the Rules (“Involuntary Termination Provisions”)¹¹ and provisions that provide that Limited Members can voluntarily terminate their membership with NSCC. Section 5 of Rule

⁷ See Rule 2, supra note 5, which describes various NSCC membership types.

⁸ Id.

⁹ See Addendum D of the Rules, supra note 5.

¹⁰ See Addendum D of the Rules, supra note 5.

¹¹ See Rules 18 and 46, supra note 5.

2B¹² contains provisions relating to the voluntary termination of a Limited Member’s membership (collectively, the “Voluntary Termination Provisions”).¹³ The Voluntary Termination Provisions generally state that a Limited Member may terminate its membership by providing NSCC a voluntary termination notice, and such termination will not be effective until NSCC has accepted the termination notice. The Voluntary Termination Provisions provide that NSCC’s acceptance shall be evidenced by a notice to NSCC’s participants announcing the Limited Member’s termination and the effective date of the termination.

(iii) Abandoned/Dormant Accounts

Neither the Involuntary Termination Provisions nor the Voluntary Termination Provisions explicitly provide for a situation where a Limited Member does not provide a voluntary termination notice, stops using its account, and NSCC is unable to establish communications with the Limited Member. This could occur for instance if the Limited Member has gone out of business, merged into another entity and/or liquidated without notifying NSCC. Although Limited Members are required to notify NSCC of any

¹² Section 5 of Rule 2B, supra note 5. Note that although Settling Bank Only Members are listed as Limited Members (See Rule 2, Section 2(ii), supra note 5), Section 5 of Rule 2B does not apply to Settling Bank Only Members. See also Rule 2, Section 2, supra note 5 which states that when the Rules refer to “Members and Limited Members”, the reference includes all member types; when reference is made to “participants” in the Rules (as in the Voluntary Termination Provisions), the reference generally means all participants other than Settling Bank Only Members, unless the context makes clear it refers to one or more specific member types. Section 5 of Rule 2B refers to all Limited Members except for Settling Bank Only Members. Section 5 of Rule 2B, supra note 5

¹³ The Rules also contain voluntary termination provisions related to a loss allocation withdrawal in Section 6 of Rule 4 that would not be affected by this proposed rule change. See Section 6 of Rule 4, supra note 5.

material organizational changes and if they no longer meet continuing membership standards,¹⁴ NSCC may not know if a Limited Member has undergone such a change until NSCC has been notified, NSCC discovers the circumstances due to its ongoing monitoring of its Limited Members,¹⁵ or the Limited Member fails to deliver financial statements or other reports required to be delivered to NSCC periodically.¹⁶

It is likely in such a situation, that the Limited Member would eventually violate a Rule, such as failing to provide a Cybersecurity Confirmation¹⁷ or another ongoing membership requirement, and NSCC would eventually become aware that the Limited Member has effectively abandoned the account. For instance, as a result of following up with Limited Members on the Cybersecurity Confirmation requirement, NSCC has recently discovered that there are currently Limited Members that have not used NSCC's services for over 6 months. In addition, NSCC has been unable to contact the designated authorized representatives of such Limited Members.

NSCC could formally cease to act for such a Limited Member pursuant to the Involuntary Termination Provisions. If NSCC is unable to reach the Limited Member, or if NSCC knows that the Limited Member is unreachable because, for instance, it has gone out of business, NSCC does not believe that going through the steps of a cease to

¹⁴ See Section 2.B of Rule 2B, supra note 5.

¹⁵ See Section 4 of Rule 2B, supra note 5, which provides that certain members will be monitored and reviewed on an ongoing and periodic basis.

¹⁶ For instance, Section 2.A of Rule 2B, supra note 5, requires that a Limited Member provide a Cybersecurity Confirmation to NSCC every two years. If a Limited Member has gone out of business and/or liquidated, it would eventually fail to provide its Cybersecurity Confirmation.

¹⁷ See Section 2.A of Rule 2B, supra note 5

act, such as formally notifying the Limited Member with the grounds under consideration and its right to request a hearing, would be necessary or appropriate when NSCC has been unable to contact the Limited Member.¹⁸ In addition, NSCC uses resources to maintain accounts, such as monitoring for compliance of the Rules, conducting risk assessments of Limited Members and updating account documentation. If a Limited Member has ceased using an account, and NSCC cannot contact the Limited Member, NSCC would like to avoid continuing to use resources to maintain the account.

NSCC is proposing to expand the Voluntary Termination Provisions to provide that a Limited Member would be deemed to have voluntarily terminated its membership if NSCC is unable to contact an authorized representative of the Limited Member, as designated by the Limited Member pursuant to Rule 5, and there has been no activity in the account by the Limited Member for at least 6 months. NSCC believes that in such situations, the Limited Member is effectively abandoning the account, which is equivalent to affirmatively taking action to close the account.

(iv) Proposed Rule Changes

NSCC is proposing to amend each of the Voluntary Termination Provisions to provide that a Limited Member may be deemed to have voluntarily terminated its membership if NSCC is unable to contact an authorized representative of the Limited Member, as designated by the Limited Member pursuant to Rule 5, and there has been no activity in the account by the Limited Member for at least 6 months. In addition, NSCC is proposing to add that any such deemed voluntary termination shall be effective when

¹⁸ See Rules 37, 45 and 46, which set forth certain steps to be taken by the Limited Member and NSCC in a cease to act including notification and hearing requirements. Rules 37, 45 and 46, supra note 5.

NSCC determines that the criteria for a deemed voluntary termination have been met (i.e., NSCC is unable to contact the Limited Member and the Limited Member hasn't used its account for at least 6 months) and that NSCC's determination shall be evidenced by a notice to NSCC's participants announcing the Limited Member's termination and the effective date of termination.

(v) ***Implementation Timeframe***

NSCC would implement the proposed changes no earlier than thirty (30) days after the date of filing, or such shorter time as the Commission may designate. As proposed, a legend would be added to Rule 2B stating there are changes that were effective upon filing but have not yet been implemented. The legend would also state that NSCC would implement the proposed changes no earlier than thirty (30) days after the date of filing, or such shorter time as the Commission may designate. The legend would state that the legend would automatically be removed upon the implementation of the proposed changes. NSCC would announce the implementation date of the proposed changes by Important Notice posted to its website.

2. Statutory Basis

NSCC believes that the proposal is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, NSCC believes that the proposed rule changes are consistent with Section 17A(b)(3)(F) of the Act¹⁹ and Rules 17Ad-22(e)(18) and (e)(23)(i),²⁰ each as promulgated under the Act, for the reasons described below.

¹⁹ 15 U.S.C. 78q-1(b)(3)(F).

²⁰ 17 CFR 240.17Ad-22(e)(18), (e)(23)(i).

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, to assure the safeguarding of securities and funds which are in the custody or control of NSCC or for which it is responsible and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.²¹ The proposed revisions to the Voluntary Termination Provisions are consistent with Section 17A(b)(3)(F) of the Act because they would provide a clear and consistent standard relating to how NSCC would treat a Limited Member that is no longer using the account and that NSCC is unable to contact. Providing a clear and consistent standard would allow Limited Members to better understand NSCC's and the Limited Members' rights and obligations with respect to their membership. NSCC believes that when Limited Members better understand their rights and obligations regarding NSCC's clearance and settlement services, they can better act in accordance with the Rules. NSCC believes that better enabling Limited Members to comply with the Rules would promote the prompt and accurate clearance and settlement of securities transactions by NSCC consistent with Section 17A(b)(3)(F) of the Act.²²

In addition, NSCC believes that treating such a Limited Member as having voluntarily terminated would make the membership maintenance process more efficient by allowing NSCC to avoid wasting resources on maintaining accounts that are no longer used and avoid having to cease to act in cases where attempting to provide notice to the

²¹ Id.

²² Id.

Limited Member is pointless and unnecessary. Allowing NSCC to deem such a Limited Member as having voluntarily terminated would increase efficiency of the account maintenance process and would free up resources at NSCC which would leave more resources to ensure the prompt and accurate clearance and settlement of securities transactions. As such, NSCC believes the proposed rule changes are consistent with Section 17A(b)(3)(F) of the Act.²³

Rule 17Ad-22(e)(18) under the Act requires that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to establish objective, risk based, and publicly disclosed criteria for participation, which permit fair and open access by direct and, where relevant, indirect participants and other financial market utilities, require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the clearing agency, and monitor compliance with such participation requirements on an ongoing basis.²⁴ NSCC believes that the proposed rule changes have been designed to meet the applicable provisions of Rule 17Ad-22(e)(18) because the proposed changes would provide publicly disclosed criteria relating to how NSCC would treat a Limited Member that is no longer using the account and that NSCC is unable to contact as having voluntarily terminated its participation. The proposed rule change would not adversely affect fair and open access because the deemed voluntary termination provisions would only be applied to those Limited Members that have not been using the service and that NSCC has been unable to contact. Moreover, the deemed voluntary termination provisions would constitute

²³ Id.

²⁴ 17 CFR 240.17Ad-22(e)(18).

publicly disclosed requirements for maintaining participation at NSCC. Therefore, NSCC believes that its proposal to provide for a deemed voluntary termination is consistent with Rule 17Ad-22(e)(18) under the Act.²⁵

Rule 17Ad-22(e)(23)(i) under the Act requires that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to publicly disclose all relevant rules and material procedures, including key aspects of its default rules and procedures.²⁶ NSCC believes that the proposed rule changes have been designed to meet the applicable provisions of Rule 17Ad-22(e)(23)(i) because the proposed changes would provide publicly disclosed criteria relating to how NSCC would remove a Limited Member that is no longer using the account and that NSCC is unable to contact as if such Limited Member had voluntarily terminated its participation. Therefore, NSCC believes that its proposal to provide for a deemed voluntary termination is consistent with Rule 17Ad-22(e)(23)(i) under the Act.²⁷

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

NSCC does not believe that the proposed changes relating to the Voluntary Termination Provisions would have any impact on competition. These changes would provide a clear and consistent standard for how NSCC could treat all Limited Members that are no longer using an account and that NSCC is unable to contact. The proposed changes would not be adding any obligations on Limited Members that are

²⁵ Id.

²⁶ 17 CFR 240.17Ad-22(e)(23)(i).

²⁷ Id.

using NSCC's services. As such, NSCC believes the proposed rule changes would not have any impact on competition.

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

NSCC has not received or solicited any written comments relating to this proposal. If any written comments are received by NSCC, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit-comments>. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the Commission's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

NSCC reserves the right not to respond to any comments received.

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

Because the foregoing proposed rule change does not:

- (i) significantly affect the protection of investors or the public interest;
- (ii) impose any significant burden on competition; and

(iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)²⁸ of the Act and paragraph (f) of Rule 19b-4(f)(6) thereunder.²⁹

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:

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-2022-007 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-2022-007. This file number should be included on the subject line if e-mail is used. To help the Commission

²⁸ 15 U.S.C 78s(b)(3)(A).

²⁹ 17 CFR 240.19b-4(f)(6).

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 (<https://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 Number SR-NSCC-2022-007 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.³⁰

J. Matthew DeLesDernier
Assistant Secretary

³⁰ 17 CFR 200.30-3(a)(12).