

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 2022 - * 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"/>
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Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input checked="" type="checkbox"/> 19b-4(f)(4) <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)		
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Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010
Section 806(e)(1) *

Section 806(e)(2) *

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
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 *).

Enhance National Securities Clearing Corporation Automated Customer Account Transfer Service

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 of 1934, National Securities Clearing Corporation has duty caused this filing to be signed on its behalf by the undersigned thereunto duty authorized.

Date (Title *)

By (Name *)

NOTE: Clicking the signature block at right will initiate digitally signing the form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Date: 2022.07.26
10:40:23 -04'00'

Required fields are shown with yellow backgrounds and astericks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

Add Remove View

Narrative - ACATS Receiver Delete En

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

Exhibit 1A - ACATS Receiver Delete E

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 Advanced 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 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

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 Sent As Paper Document

Exhibit 3 - Form, Report, or Questionnaire

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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 Sent As Paper Document

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

Exhibit 5 - ACATS Receiver Delete En

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) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² National Securities Clearing Corporation (“NSCC” or “Corporation”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to enhance NSCC’s Automated Customer Account Transfer Service (“ACATS”). The proposed modifications to NSCC’s Rules & Procedures (“Rules”) are annexed hereto as Exhibit 5.³

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Deputy General Counsel of NSCC on March 29, 2022, pursuant to delegated authority from NSCC’s Board of Directors.

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 to expand the “receiver delete” functionality in ACATS to additional products.

(i) Background

ACATS is a non-guaranteed service provided by NSCC that enables Members to effect transfers of customer accounts among themselves. 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.⁴ ACATS automates and standardizes procedures for the transfer of assets in a customer account, allowing Members to efficiently and automatically enter, review, and generate instructions to settle customer account transfers. The timing and procedures with respect to customer account

¹ 15 U.S.C 78s(b)(1).

² 17 CFR 240.19b-4.

³ Capitalized terms not defined herein are defined in the Rules, available at http://dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf.

⁴ See FINRA Rule 11870, available at <https://www.finra.org/rules-guidance/rulebooks/finra-rules/11870>. NSCC also permits Qualified Securities Depositories (i.e., The Depository Trust Company (“DTC”)) to utilize ACATS on behalf of their participants (e.g., DTC member banks) on a voluntary basis. See Section 1 of Rule 50, id.

transfers are intended to be consistent with the timing and processes set forth in FINRA Rule 11870.

Pursuant to NSCC Rule 50, an NSCC Member to whom a customer's account will be transferred (the "Receiving Member") initiates 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.⁵ The Delivering Member must either reject the customer account transfer request or submit detailed customer account asset data to NSCC. NSCC then provides a report detailing the customer account asset data to the Receiving Member,⁶ who has one Business Day after receipt of the report to review the account and: (i) accept all assets; (ii) reject (or "delete") one or more assets, to the extent such a rejection is permitted by the Receiving Member's Designated Examining Authority ("DEA") (i.e., FINRA),⁷ and allow the transfer of the remaining assets; (iii) request the Delivering Member to make adjustments to the customer account asset list; or (iv) reject the account, to extent such a rejection is permitted by NSCC or the Receiving Member's DEA.⁸ Once a customer account has been accepted by the Receiving Member, ACATS facilitates the settlements associated with the account transfer at the appropriate asset settling location (e.g., through the Continuous Net Settlement system ("CNS") for CNS-eligible securities, DTC for securities otherwise eligible for DTC settlement services, Fund/SERV for eligible mutual fund products, the Insurance Processing Service ("IPS") for annuities, or The Options Clearing Corporation for listed options).⁹

FINRA Rule 11870 acknowledges that some customer assets may not be transferred within the specified time frames to the extent that those assets are not readily transferable (a "nontransferable asset"). For purposes of FINRA Rule 11870, a nontransferable asset is any asset that is incapable of being transferred because it is: (i) an asset that is a proprietary product of the carrying member;¹⁰ (ii) an asset that is a product of a third party (e.g., mutual fund/money market fund) with which the receiving¹¹ member does not maintain the relationship or arrangement necessary to receive/carry the asset for the customer's account; (iii) an asset that may not be received due to regulatory limitations on the scope of the receiving member's

⁵ See Section 2 of Rule 50, supra note 3.

⁶ See Section 7 of Rule 50, supra note 3.

⁷ As discussed in further detail below, NSCC Rule 50 currently limits the type of assets that a Receiving Member may delete from the customer account asset data list in ACATS to MF/I&RS Products. NSCC proposes to expand this functionality to other assets that may be deemed "nontransferable assets" under FINRA Rule 11870.

⁸ See Section 8 of Rule 50, supra note 3. Pursuant to FINRA Rule 11870(d)(8), a Receiving Member may reject a transfer of account assets in whole if the account is not in compliance with the Receiving Member's credit policies or minimum asset requirements. See supra note 4.

⁹ See Section 14 of Rule 50, supra note 3.

¹⁰ For purposes of Rule 50, a carrying member would be the Delivering Member.

¹¹ See Section 5 of Rule 50, supra note 3.

business; (iv) an asset that is a bankrupt issue for which the carrying member does not possess (which shall be deemed to include possession at a securities depository for the carrying member's account) the proper denominations or quantity of shares necessary to effect delivery and no transfer agent is available to re-register the shares; (v) an asset that is an issue for which the proper denominations cannot be obtained pursuant to governmental regulation or the issuance terms of the product (e.g., foreign securities, baby bonds, etc.); or (vi) limited partnership interests in retail accounts.¹²

NSCC Rule 50 currently limits the type of assets that a Receiving Member may delete from the customer account asset data list in ACATS (the "receiver delete functionality") to "MF/I&RS Products,"¹³ which are comprised of Fund/SERV Eligible Fund assets¹⁴ and/or I&RS Eligible Products.¹⁵ As a result, certain customer assets that may also be deemed "nontransferable assets" under FINRA Rule 11870 are not currently included in the receiver delete functionality in ACATS and must be handled by a manual process outside of the automated ACATS system. For example, nontransferable alternative investment products that are the product of a third party, such as hedge funds, fund of funds, private equity, non-traded real estate investment trusts, and business development companies, may be submitted by the Delivering Member in the customer account asset list but cannot be removed using the receiver delete functionality in ACATS even though those products cannot be settled on an automated basis at one of the asset settling locations due to a lack of arrangements between the issuer of the product and the Receiving Member, which prevents such products from being held by at the Receiving Member. Instead, nontransferable alternative investment products included in an ACATS transfer generate a Receive and Deliver ("R&D") ticket instructing firms to complete the transfer outside of the ACATS process. This generally involves the Delivering Member generating physical transfer paperwork and sending it to the Receiving Member, often via the Envelope Settlement Service ("ESS"),¹⁶ to deliver the asset. Some of these assets end up getting rejected by the Receiving Member because, for example, the necessary contracts are not in place with the issuer, or the asset is otherwise ineligible to be held in the receiving account. Depending on the operational structure of the firm, the manual process to return paperwork to the

¹² See supra note 4.

¹³ See Section 8 of Rule 50, supra note 3.

¹⁴ Rule 1 defines the term "Fund/SERV Eligible Fund" to mean a fund or other pooled investment entity included in the list for which provision is made in Section 1.(c) of Rule 3, supra note 3.

¹⁵ Rule 1 defines the term "I&RS Eligible Product" to mean 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, supra note 3.

¹⁶ ESS is a non-guaranteed service of NSCC that facilitates the processing and settlement of physical security deliveries and associated charges through the use of envelope deliveries. Under this service, physical certificates may be processed for delivery at specified NSCC locations through the use of sealed envelopes accompanied by appropriate documentation (which, among other items, identifies the security, the receiving Member and the money value (if any) associated with the delivery). See Rule 9, supra note 3.

Delivering Member may involve multiple touchpoints and paperwork handoffs, resulting in processing delays.

(ii) Proposed Rule Change

NSCC proposes to modify Rule 50 to allow ACATS to process deletions for any customer assets that are (i) deemed to be nontransferable assets under FINRA Rule 11870 and (ii) permitted by NSCC. Specifically, NSCC would effectuate the proposed change by revising two statements in Section 8 of Rule 50 concerning the deletion process to replace references to “MF/I&RS Products” with the phrase “nontransferable assets as defined by the Receiving Member’s DEA and as permitted by the Corporation.” NSCC would also make non-substantive revisions to improve the clarity of Section 8 of Rule 50. Section 8 of Rule 50 currently provides, in part, that “[d]uring 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... other than with respect to MF/I&RS Products, which can also be deleted by the Receiving Member” (emphasis added). NSCC proposes to delete the word “only” because, as noted in the current and proposed rule, the Receiving Member may also utilize the receiver delete functionality for certain products within this one Business Day time period. NSCC would also replace the phrase “other than with respect to MF/I&RS Products, which can also be deleted by the Receiving Member” with “however, the Receiving Member may delete nontransferable assets as defined by the Receiving Member’s DEA and as permitted by the Corporation during the one (1) Business Day time period.” NSCC believes these proposed changes would improve the clarity and readability of the Rule.

NSCC would initially extend the receiver delete functionality to certain nontransferable alternative investment products that are the product of a third party, as discussed above. The proposed change would immediately address the need to delete alternative investment products directly within ACATS and provide necessary flexibility within NSCC’s Rules to apply the receiver delete functionality to other nontransferable assets beyond MF/I&RS Products in the future.¹⁷ NSCC would maintain a list of nontransferable assets for which the receiver delete functionality is permitted and make the list available to its Members.¹⁸

As discussed above, the ACATS service is intended to compliment FINRA Rule 11870 and provide timing and procedures for customer account transfers that are consistent with the timing and processes set forth in FINRA Rule 11870. NSCC Rule 50 currently limits the scope of assets that may be deleted from the customer account asset data list in ACATS to MF/I&RS Products, which prevents Members from processing the deletion of other nontransferable assets within the automated system. In the case of alternative investment products, this results in the need for manual and more lengthy processing of such assets through the R&D ticket process, which often involves generating physical transfer paperwork, the physical transmission of assets

¹⁷ NSCC would issue an Important Notice to inform Members of any new products eligible for the receiver delete functionality in ACATS.

¹⁸ NSCC would initially maintain this list in the ACATS User Guide, which is available through the DTCC Learning Center. See <https://dtcclearning.com/products-and-services/equities-clearing/acats/acats-users.html>.

through ESS, and the ultimate rejection of nontransferable assets. Expanding the receiver delete functionality to additional nontransferable assets would reduce the cases in which transfer paperwork is mailed unnecessarily and enable the account owner to more immediately ascertain the transfer status of such assets. The proposed rule change would therefore eliminate the manual burdens and delays associated with transfers and rejections under the current R&D ticket process and would generally result in the same outcome (i.e., rejection) for those assets. Moreover, the proposed rule change would allow NSCC to apply the receiver delete functionality to any future assets determined by FINRA to be nontransferable under FINRA Rule 11870. NSCC therefore believes that the proposed rule change is designed to further the goals of standardizing customer account transfer procedures, reducing operating costs, and accelerating the timing for transaction settlements in the customer account transfer process.

(b) 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 a registered clearing agency. Section 17A(b)(3)(F) of the Act¹⁹ requires, in part, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions. The proposed rule change would provide necessary flexibility within NSCC's Rules to expand the receiver delete functionality in ACATS to nontransferable assets beyond MF/I&RS Products. The proposed change would reduce the burdens and delays associated with nontransferable assets that fall within the current manual R&D ticket process and bring greater efficiency and expediency to the account transfer process for those products as set forth above. NSCC therefore 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.²⁰

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

NSCC does not believe that the proposed rule change would have any impact, or impose any burden, on competition. The proposed changes would bring greater efficiency to the account transfer process by allowing ACATS participants to process deletions of additional nontransferable assets in an automated and expedited fashion. 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 does not believe that the proposed rule change would have any impact on competition or materially affect the rights or obligations of NSCC Members because they would apply to all ACATS participants equally and effectively result in the same outcome as under the current manual process performed today.

¹⁹ 15 U.S.C. 78q-1(b)(3)(F).

²⁰ Id.

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. If any written comments are received, 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.

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 change is to take effect immediately upon filing pursuant to paragraph (A) of Section 19(b)(3) of the Act²¹ and subparagraph (f)(4) of Rule 19b-4²² thereunder.

(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 change would provide necessary flexibility within NSCC’s Rules to apply the existing receiver delete functionality in ACATS to nontransferable assets beyond MF/I&RS Products, provided those assets are determined to be nontransferable assets under FINRA Rule 11870. The proposed rule change would improve the efficiency of NSCC’s ACATS service by eliminating the burdens and delays associated with transfers and rejections of certain nontransferable assets that fall within the current manual R&D ticket process and would generally result in the same outcome (i.e., rejection) for those assets. Therefore, the proposed rule change would not adversely affect the safeguarding of securities or funds in the custody or

²¹ 15 U.S.C. 78s(b)(3)(A).

²² 17 CFR 240.19b-4(f)(4).

control of NSCC or for which it is responsible and would not significantly affect the rights or obligations of NSCC or NSCC participants consistent with Rule 19b-4(f)(4)(i).²³

(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 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.

²³ 17 CFR 240.19b-4(f)(4)(i).

EXHIBIT 1A

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-[_____]; File No. SR-NSCC-2022-011)

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Enhance National Securities Clearing Corporation Automated Customer Account Transfer Service

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 July __, 2022, National Securities Clearing Corporation (“NSCC” or “Corporation”) 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)(4) 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 NSCC’s Rules & Procedures (“Rules”) in order to enhance NSCC’s Automated Customer Account Transfer Service (“ACATS”), as described in greater detail below.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)(4).

⁵ Terms not defined herein are defined in the Rules, available at http://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 proposed rule change consists of modifications to NSCC's Rules to expand the "receiver delete" functionality in ACATS to additional products.

(i) Background

ACATS is a non-guaranteed service provided by NSCC that enables Members to effect transfers of customer accounts among themselves. 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.⁶ ACATS automates and standardizes procedures for the transfer of assets in a customer account, allowing Members to efficiently and automatically enter,

⁶ See FINRA Rule 11870, available at <https://www.finra.org/rules-guidance/rulebooks/finra-rules/11870>. NSCC also permits Qualified Securities Depositories (i.e., The Depository Trust Company ("DTC")) to utilize ACATS on behalf of their participants (e.g., DTC member banks) on a voluntary basis. See Section 1 of Rule 50, id.

review, and generate instructions to settle customer account transfers. The timing and procedures with respect to customer account transfers are intended to be consistent with the timing and processes set forth in FINRA Rule 11870.

Pursuant to NSCC Rule 50, an NSCC Member to whom a customer's account will be transferred (the "Receiving Member") initiates 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.⁷ The Delivering Member must either reject the customer account transfer request or submit detailed customer account asset data to NSCC. NSCC then provides a report detailing the customer account asset data to the Receiving Member,⁸ who has one Business Day after receipt of the report to review the account and: (i) accept all assets; (ii) reject (or "delete") one or more assets, to the extent such a rejection is permitted by the Receiving Member's Designated Examining Authority ("DEA") (i.e., FINRA),⁹ and allow the transfer of the remaining assets; (iii) request the Delivering Member to make adjustments to the customer account asset list; or (iv) reject the account, to extent such a rejection is permitted by NSCC or the Receiving Member's DEA.¹⁰

⁷ See Section 2 of Rule 50, supra note 5.

⁸ See Section 7 of Rule 50, supra note 5.

⁹ As discussed in further detail below, NSCC Rule 50 currently limits the type of assets that a Receiving Member may delete from the customer account asset data list in ACATS to MF/I&RS Products. NSCC proposes to expand this functionality to other assets that may be deemed "nontransferable assets" under FINRA Rule 11870.

¹⁰ See Section 8 of Rule 50, supra note 5. Pursuant to FINRA Rule 11870(d)(8), a Receiving Member may reject a transfer of account assets in whole if the account is not in compliance with the Receiving Member's credit policies or minimum asset requirements. See supra note 6.

Once a customer account has been accepted by the Receiving Member, ACATS facilitates the settlements associated with the account transfer at the appropriate asset settling location (e.g., through the Continuous Net Settlement system (“CNS”) for CNS-eligible securities, DTC for securities otherwise eligible for DTC settlement services, Fund/SERV for eligible mutual fund products, the Insurance Processing Service (“IPS”) for annuities, or The Options Clearing Corporation for listed options).¹¹

FINRA Rule 11870 acknowledges that some customer assets may not be transferred within the specified time frames to the extent that those assets are not readily transferable (a “nontransferable asset”). For purposes of FINRA Rule 11870, a nontransferable asset is any asset that is incapable of being transferred because it is: (i) an asset that is a proprietary product of the carrying member;¹² (ii) an asset that is a product of a third party (e.g., mutual fund/money market fund) with which the receiving¹³ member does not maintain the relationship or arrangement necessary to receive/carry the asset for the customer’s account; (iii) an asset that may not be received due to regulatory limitations on the scope of the receiving member’s business; (iv) an asset that is a bankrupt issue for which the carrying member does not possess (which shall be deemed to include possession at a securities depository for the carrying member’s account) the proper denominations or quantity of shares necessary to effect delivery and no transfer agent is available to re-register the shares; (v) an asset that is an issue for which the proper denominations cannot be obtained pursuant to governmental regulation or the

¹¹ See Section 14 of Rule 50, supra note 5.

¹² For purposes of Rule 50, a carrying member would be the Delivering Member.

¹³ See Section 5 of Rule 50, supra note 5.

issuance terms of the product (e.g., foreign securities, baby bonds, etc.); or (vi) limited partnership interests in retail accounts.¹⁴

NSCC Rule 50 currently limits the type of assets that a Receiving Member may delete from the customer account asset data list in ACATS (the “receiver delete functionality”) to “MF/I&RS Products,”¹⁵ which are comprised of Fund/SERV Eligible Fund assets¹⁶ and/or I&RS Eligible Products.¹⁷ As a result, certain customer assets that may also be deemed “nontransferable assets” under FINRA Rule 11870 are not currently included in the receiver delete functionality in ACATS and must be handled by a manual process outside of the automated ACATS system. For example, nontransferable alternative investment products that are the product of a third party, such as hedge funds, fund of funds, private equity, non-traded real estate investment trusts, and business development companies, may be submitted by the Delivering Member in the customer account asset list but cannot be removed using the receiver delete functionality in ACATS even though those products cannot be settled on an automated basis at one of the asset settling locations due to a lack of arrangements between the issuer of the product and the Receiving Member, which prevents such products from being held by at the Receiving Member. Instead, nontransferable alternative investment products included in an ACATS transfer generate a Receive and Deliver (“R&D”) ticket instructing firms to

¹⁴ See supra note 6.

¹⁵ See Section 8 of Rule 50, supra note 5.

¹⁶ Rule 1 defines the term “Fund/SERV Eligible Fund” to mean a fund or other pooled investment entity included in the list for which provision is made in Section 1.(c) of Rule 3, supra note 5.

¹⁷ Rule 1 defines the term “I&RS Eligible Product” to mean 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, supra note 5.

complete the transfer outside of the ACATS process. This generally involves the Delivering Member generating physical transfer paperwork and sending it to the Receiving Member, often via the Envelope Settlement Service (“ESS”),¹⁸ to deliver the asset. Some of these assets end up getting rejected by the Receiving Member because, for example, the necessary contracts are not in place with the issuer, or the asset is otherwise ineligible to be held in the receiving account. Depending on the operational structure of the firm, the manual process to return paperwork to the Delivering Member may involve multiple touchpoints and paperwork handoffs, resulting in processing delays.

(ii) Proposed Rule Change

NSCC proposes to modify Rule 50 to allow ACATS to process deletions for any customer assets that are (i) deemed to be nontransferable assets under FINRA Rule 11870 and (ii) permitted by NSCC. Specifically, NSCC would effectuate the proposed change by revising two statements in Section 8 of Rule 50 concerning the deletion process to replace references to “MF/I&RS Products” with the phrase “nontransferable assets as defined by the Receiving Member’s DEA and as permitted by the Corporation.” NSCC would also make non-substantive revisions to improve the clarity of Section 8 of Rule 50. Section 8 of Rule 50 currently provides, in part, that “[d]uring the one (1) Business Day

¹⁸ ESS is a non-guaranteed service of NSCC that facilitates the processing and settlement of physical security deliveries and associated charges through the use of envelope deliveries. Under this service, physical certificates may be processed for delivery at specified NSCC locations through the use of sealed envelopes accompanied by appropriate documentation (which, among other items, identifies the security, the receiving Member and the money value (if any) associated with the delivery). See Rule 9, supra note 5.

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... other than with respect to MF/I&RS Products, which can also be deleted by the Receiving Member” (emphasis added). NSCC proposes to delete the word “only” because, as noted in the current and proposed rule, the Receiving Member may also utilize the receiver delete functionality for certain products within this one Business Day time period. NSCC would also replace the phrase “other than with respect to MF/I&RS Products, which can also be deleted by the Receiving Member” with “however, the Receiving Member may delete nontransferable assets as defined by the Receiving Member’s DEA and as permitted by the Corporation during the one (1) Business Day time period.” NSCC believes these proposed changes would improve the clarity and readability of the Rule.

NSCC would initially extend the receiver delete functionality to certain nontransferable alternative investment products that are the product of a third party, as discussed above. The proposed change would immediately address the need to delete alternative investment products directly within ACATS and provide necessary flexibility within NSCC’s Rules to apply the receiver delete functionality to other nontransferable assets beyond MF/I&RS Products in the future.¹⁹ NSCC would maintain a list of nontransferable assets for which the receiver delete functionality is permitted and make the list available to its Members.²⁰

¹⁹ NSCC would issue an Important Notice to inform Members of any new products eligible for the receiver delete functionality in ACATS.

²⁰ NSCC would initially maintain this list in the ACATS User Guide, which is available through the DTCC Learning Center. See <https://dtcclearning.com/products-and-services/equities-clearing/acats/acats-users.html>.

As discussed above, the ACATS service is intended to compliment FINRA Rule 11870 and provide timing and procedures for customer account transfers that are consistent with the timing and processes set forth in FINRA Rule 11870. NSCC Rule 50 currently limits the scope of assets that may be deleted from the customer account asset data list in ACATS to MF/I&RS Products, which prevents Members from processing the deletion of other nontransferable assets within the automated system. In the case of alternative investment products, this results in the need for manual and more lengthy processing of such assets through the R&D ticket process, which often involves generating physical transfer paperwork, the physical transmission of assets through ESS, and the ultimate rejection of nontransferable assets. Expanding the receiver delete functionality to additional nontransferable assets would reduce the cases in which transfer paperwork is mailed unnecessarily and enable the account owner to more immediately ascertain the transfer status of such assets. The proposed rule change would therefore eliminate the manual burdens and delays associated with transfers and rejections under the current R&D ticket process and would generally result in the same outcome (i.e., rejection) for those assets. Moreover, the proposed rule change would allow NSCC to apply the receiver delete functionality to any future assets determined by FINRA to be nontransferable under FINRA Rule 11870. NSCC therefore believes that the proposed rule change is designed to further the goals of standardizing customer account transfer procedures, reducing operating costs, and accelerating the timing for transaction settlements in the customer account transfer process.

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 a registered clearing agency. Section 17A(b)(3)(F) of the Act²¹ requires, in part, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions. The proposed rule change would provide necessary flexibility within NSCC's Rules to expand the receiver delete functionality in ACATS to nontransferable assets beyond MF/I&RS Products. The proposed change would reduce the burdens and delays associated with nontransferable assets that fall within the current manual R&D ticket process and bring greater efficiency and expediency to the account transfer process for those products as set forth above. NSCC therefore 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.²²

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

NSCC does not believe that the proposed rule change would have any impact, or impose any burden, on competition. The proposed changes would bring greater efficiency to the account transfer process by allowing ACATS participants to process deletions of additional nontransferable assets in an automated and expedited fashion. 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

²¹ 15 U.S.C. 78q-1(b)(3)(F).

²² Id.

participants more quickly. NSCC does not believe that the proposed rule change would have any impact on competition or materially affect the rights or obligations of NSCC Members because they would apply to all ACATS participants equally and effectively result in the same outcome as under the current manual process performed today.

(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, 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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)²³ of the Act and paragraph (f)²⁴ 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:

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-2022-011 on the subject line.

Paper Comments:

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

²³ 15 U.S.C. 78s(b)(3)(A).

²⁴ 17 CFR 240.19b-4(f).

All submissions should refer to File Number SR-NSCC-2022-011. 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-2022-011 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.²⁵

Secretary

²⁵ 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

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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/I&RS Products (as defined below)~~ **nontransferable assets as defined by the Receiving Member's DEA and as permitted by the Corporation** 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/I&RS Products, which can also be deleted by the Receiving Member;~~ **however, the Receiving Member may delete nontransferable assets as defined by the Receiving Member's DEA and as permitted by the Corporation during the one (1) Business Day time period.** 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 I&RS Eligible Products ("MF/I&RS 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/I&RS 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 I&RS 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 I&RS 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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