

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 26		SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No. * SR 2024 - * 007 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"/>	
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 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 checked="" type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) * <input type="checkbox"/>			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) * <input type="checkbox"/>		
Exhibit 2 Sent As Paper Document <input type="checkbox"/>			Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
<b>Description</b> Provide a brief description of the action (limit 250 characters, required when Initial is checked *). <div>Modify the NSCC Rules &amp; Procedures to Accommodate Fractional Share Trading Programs</div>					
<b>Contact Information</b> 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 * <div></div> Last Name * <div></div> Title * <div></div> E-mail * <div>RuleFilingAdmin@dtcc.com</div> Telephone * <div></div> Fax <div></div>					
<b>Signature</b> Pursuant to the requirements of the Securities Exchange of 1934, National Securities Clearing Corporation has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized. Date <div>08/21/2024</div> (Title *) By <div></div> <div></div> (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. <div>Date: 2024.08.21 09:51:54 -04'00'</div>					

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

Add	Remove	View
Narrative - Fractional Shares - Final.doc		

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 \***

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Exhibit 1A - Fractional Shares - Final.doc		

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 \***

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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.

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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.

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Exhibit Sent As Paper Document

**Exhibit 4 - Marked Copies**

Add	Remove	View

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 - Fractional Shares - Final.doc		

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”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> National Securities Clearing Corporation (“NSCC”) is filing with the Securities and Exchange Commission (“Commission” or “SEC”) a proposed rule change to modify the NSCC Rules & Procedures (“Rules”) to accommodate the Member submission and trade recording of certain trades executed in connection with fractional share trading programs. NSCC filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6)<sup>4</sup> thereunder so that the proposal was effective upon filing with the Commission. The proposed modifications to the Rules are annexed hereto as Exhibit 5.<sup>5</sup>

(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 August 1, 2024, 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 purpose of this proposed rule change is to amend the real-time trade submission requirements in NSCC Rule 7 and Procedure II to accommodate the Member submission and trade recording of certain trades representing transactions from fractional share trading programs. The proposed rule change is discussed in detail below.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

<sup>5</sup> Capitalized terms not defined herein shall have the meaning assigned to such terms in the Rules, available at [www.dtcc.com/legal/rules-and-procedures](http://www.dtcc.com/legal/rules-and-procedures).

## Background

NSCC Rule 7, Section 7 requires that trade data submitted to NSCC for trade recording be submitted in “Real-time,”<sup>6</sup> and on a trade-by-trade basis, in the form executed without any form of “pre-netting” of such trades prior to their submission (collectively, the “Real-time Trade Submission Requirement”). Cleared contract information is then reported out to submitting firms by NSCC’s Universal Trade Capture (“UTC”) system<sup>7</sup> upon trade comparison and validation. The receipt of trade data in real-time enables NSCC to report to Members trade data as it is received, thereby promoting intra-day reconciliation of transactions at the Member level, and also facilitates efficient risk management for both NSCC and its Members.

From an operational perspective, NSCC is only able to accept trades for clearing in units of full shares. Moreover, stocks do not trade on exchanges in units of less than one share, and trades may only be reported to a trade reporting facility in multiples of one share.<sup>8</sup> Some broker-dealers, however, offer programs enabling their customers to purchase and sell shares on a fractional basis (i.e., less than one full share of a stock or other security).<sup>9</sup> These programs vary by broker-dealer and may involve the broker-dealer using its own capital to purchase/sell a full share and giving its customer the fraction or aggregating customer orders together to form full shares.

Because NSCC cannot operationally process fractions of shares, Members offering fractional share trading programs cannot submit certain transactions from fractional share trading programs for clearing. Trades in fractional shares may be reported to a trade reporting facility in multiples of one share; however, for fractional shares this must be done in accordance with certain rounding conventions.<sup>10</sup> NSCC believes that such trades could be similarly aggregated

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<sup>6</sup> NSCC Procedure XIII defines “Real-time” to mean the “submission of trade data on a trade-by-trade basis promptly after trade execution, in any format and by any communication method acceptable to [NSCC].” See NSCC Procedure XIII, supra note 5.

<sup>7</sup> NSCC’s UTC system validates and reports equity transactions that are submitted to NSCC throughout the trading day by an exchange or by a Qualified Special Representative that is an NSCC Member.

<sup>8</sup> See “Trade Reporting Frequently Asked Questions #101.14,” Financial Industry Regulatory Authority, available at [www.finra.org/filing-reporting/market-transparency-reporting/trade-reporting-faq](http://www.finra.org/filing-reporting/market-transparency-reporting/trade-reporting-faq).

<sup>9</sup> See “Staff Report on Equity and Options Market Structure Conditions in Early 2021,” SEC, page 7, available at [www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf](http://www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf).

<sup>10</sup> See supra note 8.

into full shares for submission to NSCC as Correspondent Clearing transactions.<sup>11</sup> Section 2(b) of Rule 7 provides that a Special Representative<sup>12</sup> may submit to NSCC transaction data as to the rights and obligations of Members which calls for the delivery of Cleared Securities and is between Members. This includes Correspondent Clearing transactions, which allow NSCC Members to move a position from an executing broker (or Special Representative) account to a different clearing broker (i.e., correspondent) account. NSCC allows exceptions to the Real-time Trade Submission Requirement for Correspondent Clearing transactions submitted under Section 2(b) of Rule 7 if the trade data is submitted to facilitate a position movement between affiliates or is between two unaffiliated clearing brokers on behalf of a common client for custody purposes.<sup>13</sup> NSCC believes a similar exception would be appropriate for certain transactions from fractional share trading programs.

### **Proposed Changes**

NSCC proposes to revise its Rules to allow an exception to the Real-time Trade Submission Requirement for Correspondent Clearing transactions representing aggregated transactions of fractional shares. As described above, NSCC cannot currently process trades on a fractional basis. However, NSCC may accept aggregated transactions from fractional share trading programs for clearing if such transactions are submitted in multiples of one share based on rounding conventions similar to those used for reporting such transactions to trade reporting facilities.

For example, a broker-deal (“Broker A”) may receive an order from a customer to purchase 6.5 shares of ABC Corp. Broker A may route that order to an executing broker (“Broker B”) to purchase 6.5 shares. Broker B then executes an order to buy 7 shares of ABC Corp. on a trading venue such as an exchange or alternative trading system, which only offers trading in full shares. This transaction clears in real-time at NSCC with Broker B as the buyer versus its contra party. Broker B would then submit a Correspondent Clearing transaction<sup>14</sup> to NSCC for 6 shares of ABC Corp., with Broker B as the seller and Broker A as the buyer. This transaction would also clear in real-time at NSCC. To accommodate the fractional share, Broker A would set up a fail to receive of 0.5 shares of ABC Corp. versus Broker B, and Broker B

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<sup>11</sup> The Correspondent Clearing service allows an NSCC Member broker-dealer to use one broker-dealer for an execution and another for clearance and settlement. See NSCC Procedure IV, Section C, supra note 5.

<sup>12</sup> A “Special Representative” is a Member or a Registered Clearing Agency which applies to NSCC for such status and designates those Members for which it will act. Special Representatives may submit to NSCC for trade recording trade data on any transaction calling for delivery of Cleared Securities between it and another person. See NSCC Rule 7, Sections 1 and 2(a), supra note 5.

<sup>13</sup> See NSCC Rule 7, Section 7, supra note 5. NSCC notes that the Real-time Trade Submission Requirement in NSCC Rule 7, Section 7 also does not apply to transaction data for exchange-traded funds submitted pursuant to Section 4(b) of Rule 7.

<sup>14</sup> See supra note 11 and associated text.

would set up fail to deliver of 0.5 shares of ABC Corp. versus Broker A. Broker B would take principal ownership of the remaining 0.5 shares of ABC Corp. This position would be held in Broker B's omnibus account at the broker-dealer until the account accumulates to at least one (1) full share.

The following day, Broker A may receive another order from a customer to purchase 6.5 shares of ABC Corp. Broker A again routes the order to executing Broker B to purchase 6.5 shares. This time, Broker B executes an order to buy 6 shares of ABC Corp. on a trading venue. This transaction clears in real-time at NSCC with Broker B as buyer versus its contra party. Broker B then submits a Correspondent Clearing transaction to NSCC for 6 shares of ABC Corp. with Broker B as seller and Broker A as buyer. This transaction also clears in real-time at NSCC. Broker B then ultimately submits an additional Correspondent Clearing transaction to NSCC for 1 share of ABC Corp. with Broker B as seller and Broker A as buyer. This transaction clears at NSCC, and Broker A and Broker B close-out the fail to receive/deliver with one another.

In the example above, the rounding, aggregation and submission of transactions in fractional shares could be interpreted as not satisfying the Real-time Trade Submission Requirement. For example, the Correspondent Clearing transactions containing aggregated fractional shares may not be submitted promptly after execution of the underlying trades executed by the executing broker and the aggregated shares may not be submitted in the form executed. The Real-time Trade Submission Requirement was not designed, however, to prohibit the submission of Correspondent Clearing transactions necessary to accommodate the clearing of fractional shares. NSCC did not consider fractional share trading programs or the clearing of fractional shares when it adopted its Real-time Trade Submission Requirement rules and subsequently amended those rules to address the Correspondent Clearing service.<sup>15</sup> As a result, NSCC proposes to revise Section 7 of NSCC Rule 7 to allow an additional exception from the Real-time Trade Submission Requirement for Correspondent Clearing transactions that represent aggregated transactions of fractional shares. In addition, NSCC would revise Section 7 of NSCC Rule 7 to include a requirement that trade data representing aggregated transactions of fractional shares must be submitted to NSCC for trade recording in units of full shares and should be submitted as promptly as reasonably practical. NSCC also proposes to make conforming changes to Section A of Procedure II to include trade data representing aggregated transactions of fractional shares in the list of exceptions for the Real-time Trade Submission Requirement.

The proposed rule change would not require NSCC to make any changes to its current operational and risk management processes. As described above, NSCC would continue to receive all transactions in units of full shares, and from an operational perspective, transactions from fractional share trading programs would be recorded and processed in the same manner as any other transaction submitted for clearing. NSCC also does not believe that clearing transactions from fractional share trading programs would require any changes to its risk management processes. While the Correspondent Clearing portion of such transactions would

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<sup>15</sup> See e.g., Securities Exchange Act Release Nos. 69890 (June 28, 2013), 78 FR 40538 (July 5, 2013) (File No. SR-NSCC-2013-05) and 76462 (Nov. 17, 2015), 80 FR 73029 (Nov. 23, 2015) (SR-NSCC-2015-004).



not be subject to the Real-time Trade Submission Requirement, these transactions are not expected to constitute a significant volume of trades relative to NSCC's total cleared transaction volumes. Transactions from fractional share trading programs would be subject to the same margining and risk management practices as other equity transactions upon trade recording and validation by NSCC, and NSCC does not currently plan to make any changes to its risk management processes in relation to the clearing of the aggregated shares received from fractional share trading programs. NSCC believes that the benefits of bringing these transactions into central clearing (e.g., their inclusion in Continuous Net Settlement ("CNS") netting, NSCC risk management and NSCC's trade guaranty) would justify the exception for such transactions from the Real-time Trade Submission Requirement. As noted above, NSCC currently permits other exceptions to the Real-time Trade Submission Requirement for Correspondent Clearing transactions, such as trade data submitted to facilitate a position movement between affiliates or between two unaffiliated clearing brokers on behalf of a common client for custody purposes and transaction data concerning creation and redemption orders for exchange-traded funds.<sup>16</sup>

(b) Statutory Basis

NSCC believes 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 Act<sup>17</sup> requires that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, and remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.

The proposed rule change would provide an additional exception from the Real-time Trade Submission Requirement for Correspondent Clearing transactions representing aggregated transactions of fractional shares, thereby allowing broker-dealers offering or participating in fractional share trading programs to submit these fractional shares, on a rounded and aggregated basis, to NSCC for clearance and settlement. The proposed rule change would not require NSCC to make any changes to its current operational and risk management processes and would enable the prompt and accurate clearance and settlement of such transactions. The proposed rule change would require such transactions to be submitted for trade recording in units of full shares and as promptly as reasonably practical. Moreover, the proposed rule change would extend the benefit of CNS netting, NSCC's risk management and margining practices, and NSCC's trade guaranty to these fractional shares, thereby safeguarding the securities and funds associated with such transactions. For these reasons, NSCC believes the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, and remove impediments to and perfect the mechanism of a national

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<sup>16</sup> See supra note 13 and associated text.

<sup>17</sup> 15 U.S.C. 78q-1(b)(3)(F).

system for the prompt and accurate clearance and settlement of securities transactions in accordance with Section 17A(b)(3)(F) of the Act.<sup>18</sup>

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

Section 17A(b)(3)(I) of the Act<sup>19</sup> requires that the rules of the clearing agency do not impose any burden on competition not necessary or appropriate in furtherance of the Act. NSCC does not believe the proposed rule change would have any impact or burden on competition. The proposed rule change would provide an exception to the Real-time Trade Submission Requirement for fractional shares and require that such transactions be submitted to NSCC in aggregated units of full shares as promptly as reasonably practical. The proposed rule change would apply to all Members equally and would not otherwise impose any requirements on the manner in which Members operate their fractional shares programs. Moreover, NSCC would clear and risk manage these aggregated shares in the same way as other trades submitted for trade recording and clearing. The proposed rule change would not unfairly inhibit access to NSCC's services by any Member or advantage or disadvantage one Member in relationship to another. NSCC therefore believes the proposed rule change would not have any impact or burden on competition.

#### **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 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](mailto:tradingandmarkets@sec.gov) or 202-551-5777.

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

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<sup>18</sup> Id.

<sup>19</sup> 15 U.S.C. 78q-1(b)(3)(I).



## **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 Act<sup>20</sup> for Commission action.

## **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)<sup>21</sup> of the Act and Rule 19b-4(f)(6) thereunder.<sup>22</sup>

(b) The proposed rule change (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The proposed rule change would create an exception to NSCC's Real-time Trade Submission Requirement for certain transaction data representing transactions in fractional shares, allowing broker-dealers offering or participating in fractional share trading programs to submit such fractional shares, on a rounded and aggregated basis, to NSCC for clearance and settlement. The proposed rule change would not require NSCC to make any changes to its current operational and risk management processes and would apply only to certain trades executed in connection with fractional share trading programs, which are expected to constitute a relatively small portion of NSCC's total aggregate transaction volume. The proposed rule change would allow these transactions to be submitted to NSCC for clearing, and the transactions would be subject to the same margining and risk management practices as other equity transactions upon trade recording and validation by NSCC. NSCC therefore believes the proposed rule change would not significantly affect the protection of investors or the public interest.

The proposed rule change would apply to all Members equally and would not otherwise impose any requirements on the manner in which Members operate their fractional shares programs. NSCC would clear and risk manage these aggregated shares in the same way as other trades submitted for trade recording and clearing. The proposed rule change would not unfairly inhibit access to NSCC's services by any Member or advantage or disadvantage one Member in relationship to another. NSCC therefore believes the proposed rule change would not have any impact or burden on competition.

NSCC has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business

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<sup>20</sup> 15 U.S.C. 78s(b)(2).

<sup>21</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>22</sup> 17 CFR 240.19b-4(f)(6).

days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.<sup>23</sup>

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. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule should be approved or disapproved.

(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.

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<sup>23</sup>

Id.

**EXHIBIT 1A**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-[\_\_\_\_]; File No. SR-NSCC-2024-007)

[DATE]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Modify the NSCC Rules & Procedures to Accommodate Fractional Share Trading Programs

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on August \_\_, 2024, 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 Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> 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 modifications to the NSCC Rules & Procedures (“Rules”) to accommodate the Member submission and trade recording of

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

certain trades executed in connection with fractional share trading programs, as described in greater detail below.<sup>5</sup>

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 this proposed rule change is to amend the real-time trade submission requirements in NSCC Rule 7 and Procedure II to accommodate the Member submission and trade recording of certain trades representing transactions from fractional share trading programs. The proposed rule change is discussed in detail below.

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<sup>5</sup> Capitalized terms not defined herein shall have the meaning assigned to such terms in the Rules, available at [www.dtcc.com/legal/rules-and-procedures](http://www.dtcc.com/legal/rules-and-procedures).

## Background

NSCC Rule 7, Section 7 requires that trade data submitted to NSCC for trade recording be submitted in “Real-time,”<sup>6</sup> and on a trade-by-trade basis, in the form executed without any form of “pre-netting” of such trades prior to their submission (collectively, the “Real-time Trade Submission Requirement”). Cleared contract information is then reported out to submitting firms by NSCC’s Universal Trade Capture (“UTC”) system<sup>7</sup> upon trade comparison and validation. The receipt of trade data in real-time enables NSCC to report to Members trade data as it is received, thereby promoting intra-day reconciliation of transactions at the Member level, and also facilitates efficient risk management for both NSCC and its Members.

From an operational perspective, NSCC is only able to accept trades for clearing in units of full shares. Moreover, stocks do not trade on exchanges in units of less than one share, and trades may only be reported to a trade reporting facility in multiples of one share.<sup>8</sup> Some broker-dealers, however, offer programs enabling their customers to purchase and sell shares on a fractional basis (i.e., less than one full share of a stock or

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<sup>6</sup> NSCC Procedure XIII defines “Real-time” to mean the “submission of trade data on a trade-by-trade basis promptly after trade execution, in any format and by any communication method acceptable to [NSCC].” See NSCC Procedure XIII, supra note 5.

<sup>7</sup> NSCC’s UTC system validates and reports equity transactions that are submitted to NSCC throughout the trading day by an exchange or by a Qualified Special Representative that is an NSCC Member.

<sup>8</sup> See “Trade Reporting Frequently Asked Questions #101.14,” Financial Industry Regulatory Authority, available at [www.finra.org/filing-reporting/market-transparency-reporting/trade-reporting-faq](http://www.finra.org/filing-reporting/market-transparency-reporting/trade-reporting-faq).

other security).<sup>9</sup> These programs vary by broker-dealer and may involve the broker-dealer using its own capital to purchase/sell a full share and giving its customer the fraction or aggregating customer orders together to form full shares.

Because NSCC cannot operationally process fractions of shares, Members offering fractional share trading programs cannot submit certain transactions from fractional share trading programs for clearing. Trades in fractional shares may be reported to a trade reporting facility in multiples of one share; however, for fractional shares this must be done in accordance with certain rounding conventions.<sup>10</sup> NSCC believes that such trades could be similarly aggregated into full shares for submission to NSCC as Correspondent Clearing transactions.<sup>11</sup> Section 2(b) of Rule 7 provides that a Special Representative<sup>12</sup> may submit to NSCC transaction data as to the rights and obligations of Members which calls for the delivery of Cleared Securities and is between Members. This includes Correspondent Clearing transactions, which allow NSCC Members to move a position from an executing broker (or Special Representative) account to a different clearing broker (i.e., correspondent) account. NSCC allows

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<sup>9</sup> See “Staff Report on Equity and Options Market Structure Conditions in Early 2021,” SEC, page 7, [available at](https://www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf) [www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf](https://www.sec.gov/files/staff-report-equity-options-market-struction-conditions-early-2021.pdf).

<sup>10</sup> See supra note 8.

<sup>11</sup> The Correspondent Clearing service allows an NSCC Member broker-dealer to use one broker-dealer for an execution and another for clearance and settlement. See NSCC Procedure IV, Section C, supra note 5.

<sup>12</sup> A “Special Representative” is a Member or a Registered Clearing Agency which applies to NSCC for such status and designates those Members for which it will act. Special Representatives may submit to NSCC for trade recording trade data on any transaction calling for delivery of Cleared Securities between it and another person. See NSCC Rule 7, Sections 1 and 2(a), supra note 5.



exceptions to the Real-time Trade Submission Requirement for Correspondent Clearing transactions submitted under Section 2(b) of Rule 7 if the trade data is submitted to facilitate a position movement between affiliates or is between two unaffiliated clearing brokers on behalf of a common client for custody purposes.<sup>13</sup> NSCC believes a similar exception would be appropriate for certain transactions from fractional share trading programs.

### **Proposed Changes**

NSCC proposes to revise its Rules to allow an exception to the Real-time Trade Submission Requirement for Correspondent Clearing transactions representing aggregated transactions of fractional shares. As described above, NSCC cannot currently process trades on a fractional basis. However, NSCC may accept aggregated transactions from fractional share trading programs for clearing if such transactions are submitted in multiples of one share based on rounding conventions similar to those used for reporting such transactions to trade reporting facilities.

For example, a broker-deal (“Broker A”) may receive an order from a customer to purchase 6.5 shares of ABC Corp. Broker A may route that order to an executing broker (“Broker B”) to purchase 6.5 shares. Broker B then executes an order to buy 7 shares of ABC Corp. on a trading venue such as an exchange or alternative trading system, which only offers trading in full shares. This transaction clears in real-time at NSCC with Broker B as the buyer versus its contra party. Broker B would then submit a

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<sup>13</sup> See NSCC Rule 7, Section 7, supra note 5. NSCC notes that the Real-time Trade Submission Requirement in NSCC Rule 7, Section 7 also does not apply to transaction data for exchange-traded funds submitted pursuant to Section 4(b) of Rule 7.

Correspondent Clearing transaction<sup>14</sup> to NSCC for 6 shares of ABC Corp., with Broker B as the seller and Broker A as the buyer. This transaction would also clear in real-time at NSCC. To accommodate the fractional share, Broker A would set up a fail to receive of 0.5 shares of ABC Corp. versus Broker B, and Broker B would set up fail to deliver of 0.5 shares of ABC Corp. versus Broker A. Broker B would take principal ownership of the remaining 0.5 shares of ABC Corp. This position would be held in Broker B's omnibus account at the broker-dealer until the account accumulates to at least one (1) full share.

The following day, Broker A may receive another order from a customer to purchase 6.5 shares of ABC Corp. Broker A again routes the order to executing Broker B to purchase 6.5 shares. This time, Broker B executes an order to buy 6 shares of ABC Corp. on a trading venue. This transaction clears in real-time at NSCC with Broker B as buyer versus its contra party. Broker B then submits a Correspondent Clearing transaction to NSCC for 6 shares of ABC Corp. with Broker B as seller and Broker A as buyer. This transaction also clears in real-time at NSCC. Broker B then ultimately submits an additional Correspondent Clearing transaction to NSCC for 1 share of ABC Corp. with Broker B as seller and Broker A as buyer. This transaction clears at NSCC, and Broker A and Broker B close-out the fail to receive/deliver with one another.

In the example above, the rounding, aggregation and submission of transactions in fractional shares could be interpreted as not satisfying the Real-time Trade Submission Requirement. For example, the Correspondent Clearing transactions containing aggregated fractional shares may not be submitted promptly after execution of the

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<sup>14</sup> See supra note 11 and associated text.

underlying trades executed by the executing broker and the aggregated shares may not be submitted in the form executed. The Real-time Trade Submission Requirement was not designed, however, to prohibit the submission of Correspondent Clearing transactions necessary to accommodate the clearing of fractional shares. NSCC did not consider fractional share trading programs or the clearing of fractional shares when it adopted its Real-time Trade Submission Requirement rules and subsequently amended those rules to address the Correspondent Clearing service.<sup>15</sup> As a result, NSCC proposes to revise Section 7 of NSCC Rule 7 to allow an additional exception from the Real-time Trade Submission Requirement for Correspondent Clearing transactions that represent aggregated transactions of fractional shares. In addition, NSCC would revise Section 7 of NSCC Rule 7 to include a requirement that trade data representing aggregated transactions of fractional shares must be submitted to NSCC for trade recording in units of full shares and should be submitted as promptly as reasonably practical. NSCC also proposes to make conforming changes to Section A of Procedure II to include trade data representing aggregated transactions of fractional shares in the list of exceptions for the Real-time Trade Submission Requirement.

The proposed rule change would not require NSCC to make any changes to its current operational and risk management processes. As described above, NSCC would continue to receive all transactions in units of full shares, and from an operational perspective, transactions from fractional share trading programs would be recorded and processed in the same manner as any other transaction submitted for clearing. NSCC

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<sup>15</sup> See e.g., Securities Exchange Act Release Nos. 69890 (June 28, 2013), 78 FR 40538 (July 5, 2013) (File No. SR-NSCC-2013-05) and 76462 (Nov. 17, 2015), 80 FR 73029 (Nov. 23, 2015) (SR-NSCC-2015-004).

also does not believe that clearing transactions from fractional share trading programs would require any changes to its risk management processes. While the Correspondent Clearing portion of such transactions would not be subject to the Real-time Trade Submission Requirement, these transactions are not expected to constitute a significant volume of trades relative to NSCC's total cleared transaction volumes. Transactions from fractional share trading programs would be subject to the same margining and risk management practices as other equity transactions upon trade recording and validation by NSCC, and NSCC does not currently plan to make any changes to its risk management processes in relation to the clearing of the aggregated shares received from fractional share trading programs. NSCC believes that the benefits of bringing these transactions into central clearing (e.g., their inclusion in Continuous Net Settlement ("CNS") netting, NSCC risk management and NSCC's trade guaranty) would justify the exception for such transactions from the Real-time Trade Submission Requirement. As noted above, NSCC currently permits other exceptions to the Real-time Trade Submission Requirement for Correspondent Clearing transactions, such as trade data submitted to facilitate a position movement between affiliates or between two unaffiliated clearing brokers on behalf of a common client for custody purposes and transaction data concerning creation and redemption orders for exchange-traded funds.<sup>16</sup>

## 2. Statutory Basis

NSCC believes the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing

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<sup>16</sup> See supra note 13 and associated text.

agency. Section 17A(b)(3)(F) of the Act<sup>17</sup> requires that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, and remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions.

The proposed rule change would provide an additional exception from the Real-time Trade Submission Requirement for Correspondent Clearing transactions representing aggregated transactions of fractional shares, thereby allowing broker-dealers offering or participating in fractional share trading programs to submit these fractional shares, on a rounded and aggregated basis, to NSCC for clearance and settlement. The proposed rule change would not require NSCC to make any changes to its current operational and risk management processes and would enable the prompt and accurate clearance and settlement of such transactions. The proposed rule change would require such transactions to be submitted for trade recording in units of full shares and as promptly as reasonably practical. Moreover, the proposed rule change would extend the benefit of CNS netting, NSCC's risk management and margining practices, and NSCC's trade guaranty to these fractional shares, thereby safeguarding the securities and funds associated with such transactions. For these reasons, NSCC believes the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, and remove impediments to

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<sup>17</sup> 15 U.S.C. 78q-1(b)(3)(F).

and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions in accordance with Section 17A(b)(3)(F) of the Act.<sup>18</sup>

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

Section 17A(b)(3)(I) of the Act<sup>19</sup> requires that the rules of the clearing agency do not impose any burden on competition not necessary or appropriate in furtherance of the Act. NSCC does not believe the proposed rule change would have any impact or burden on competition. The proposed rule change would provide an exception to the Real-time Trade Submission Requirement for fractional shares and require that such transactions be submitted to NSCC in aggregated units of full shares as promptly as reasonably practical. The proposed rule change would apply to all Members equally and would not otherwise impose any requirements on the manner in which Members operate their fractional shares programs. Moreover, NSCC would clear and risk manage these aggregated shares in the same way as other trades submitted for trade recording and clearing. The proposed rule change would not unfairly inhibit access to NSCC's services by any Member or advantage or disadvantage one Member in relationship to another. NSCC therefore believes the proposed rule change would not have any impact or burden 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

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<sup>18</sup> Id.

<sup>19</sup> 15 U.S.C. 78q-1(b)(3)(I).



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](mailto: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) of the Act and Rule 19b-4(f)(6) 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  
([www.sec.gov/rules/sro.shtml](http://www.sec.gov/rules/sro.shtml)); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2024-007 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-2024-007. 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 ([www.sec.gov/rules/sro.shtml](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 ([dtcc.com/legal/sec-rule-filings](http://dtcc.com/legal/sec-rule-filings)). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-NSCC-2024-007 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.<sup>20</sup>

Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).

# NATIONAL SECURITIES CLEARING CORPORATION

## RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

**Bold and underlined text** indicates proposed added language.

**~~Bold and strikethrough text~~** indicates proposed deleted language.

RULE 7. COMPARISON AND TRADE RECORDING OPERATION  
(INCLUDING SPECIAL REPRESENTATIVE/INDEX RECEIPT AGENT)

\* \* \*

SEC. 7. All trade data submitted to the Corporation for trade recording pursuant to Sections 2(b), 3(b) or 6 of this Rule shall be submitted in Real-time, as that term is defined in Procedure XIII of these Rules, and on a trade-by-trade basis, in the form executed without any form of “pre-netting” of such trades prior to their submission. The Corporation shall deem any form of trade summarization, compression, or other form of netting or practice that combines two or more trades prior to their submission to the Corporation, or any practice or action designed to contravene this prohibition, as a violation of this Rule, and this prohibition shall apply to any Member (including any Special Representative or Qualified Special Representative) that, directly or indirectly, engages in such pre-netting.

Trade data submitted to the Corporation for trade recording pursuant to Section 2(b) of this Rule is not subject to the requirements of this Section if (1) the counterparty to that trade is an Affiliate of the submitting firm on the Corporation’s records at the time the trade data is submitted; ~~or~~ (2) the trade data is submitted to facilitate a position movement between two unaffiliated clearing brokers on behalf of a common client for custody purposes (“Client Custody Movements”); **or (3) the trade data represents aggregated transactions of fractional shares. Trade data representing aggregated transactions of fractional shares must be submitted to the Corporation for trade recording in units of full shares and should be submitted for trade recording as promptly as reasonably practical.**

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PROCEDURE II. TRADE COMPARISON AND RECORDING SERVICE

A. Introduction

Trade Comparison is the first step in the clearance and settlement of securities transactions. It consists of reporting, validating and matching the buy and sell sides of a securities transaction and results in a compared trade. Except with respect to certain transactions eligible and submitted for processing through the Obligation Warehouse service and provided under these Rules & Procedures, Trade Comparison for transactions in equity securities occurs outside of the Corporation through the facilities of relevant Self-Regulatory Organizations and/or Qualified Special Representatives. The Corporation may provide Comparison services with respect to transactions in debt securities. Trade data submitted by Self-Regulatory Organizations and Qualified Special Representatives on behalf of Members as permitted in this Procedure II is submitted on a locked-in basis for Trade Recording, and is converted (if necessary), validated, recorded and reported to Members. Except as specified below, compared and recorded

trades are then entered into the CNS Accounting Operation, the Foreign Security Accounting Operation, or the Balance Order Accounting Operation.

All trade data submitted to the Corporation by Self-Regulatory Organizations, Qualified Special Representatives and Special Representatives for recording pursuant to this Procedure II must be submitted in Real-time, as that term is defined in Procedure XIII and on a trade-by-trade basis, in the form executed without any form of pre-netting of such trades prior to their submission. Trades submitted by Special Representatives for which the counterparties are Affiliates, **and trades that facilitate** Client Custody Movements, **and trades that represent aggregated transactions of fractional shares**, as defined in Section 7 of Rule 7, are not subject to the requirements of this paragraph.

Compared and recorded trades are routed to either the CNS Accounting Operation, the Balance Order Accounting Operation, or the Foreign Security Accounting Operation. Separate Trade Recording is provided for regular way and when-issued and when distributed transactions in equity securities (a) executed on securities exchanges, and (b) traded in the Over-the-Counter (OTC) market. Separate Trade Comparison and Recording is also provided for debt securities, including when issued and when-distributed transactions, for transactions in all marketplaces.

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