

# SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-103390; File No. SR-NSCC-2025-010]

## **Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the NSCC Rules to Decommission CNS Functionality Related to Level 2 Exemptions and Fully-Paid-For Accounts**

July 3, 2025

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 June 27, 2025, 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 decommission Continuous Net Settlement system (“CNS”)

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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).

functionality related to (i) Level 2 Exemptions and (ii) Fully-Paid-For Accounts. The proposed modifications to the Rules are included in Exhibit 5 of the filing.<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 NSCC Rules to decommission CNS functionality related to (i) Level 2 Exemptions and (ii) Fully-Paid-For Accounts.<sup>6</sup> The proposed rule change is discussed in detail below.

**Background**

*Continuous Net Settlement System (CNS)*

CNS is an automated accounting and securities settlement system that centralizes and nets the settlement of compared and recorded securities transactions and maintains an

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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).

<sup>6</sup> The Depository Trust Company ("DTC") also filed this proposed rule change with the Commission in connection with the decommissioning of Fully-Paid-For Accounts. See DTC filing SR-DTC-2025-010.

orderly flow of security and money balances.<sup>7</sup> CNS provides clearance for equities, corporate bonds, unit investment trusts, and municipal bonds that are eligible for book-entry transfer at DTC, an affiliate of NSCC.

Within CNS, all eligible compared and recorded transactions for a particular settlement date are netted by issue into one position per Member. The position can be net long (buy), net short (sell) or flat. As a continuous net system, those positions are further netted with positions of the same issue that remain open after their original scheduled settlement date (usually one business day after the trade date or T+1), so that transactions scheduled to settle on any day are netted with fail positions (i.e., positions that have failed in delivery or receipt on the settlement date), which results in a single deliver or receive obligation for each Member for each issue in which the Member has activity.

NSCC Procedure VII (CNS Accounting Operation) describes the receipt and delivery of CNS Securities. CNS relies on an interface with DTC for the book-entry movement of securities. CNS short positions are compared against each Member's DTC accounts to determine the availability of securities for delivery. If securities are available, they are transferred from the Member's account at DTC to NSCC's account at DTC to cover the Member's short obligations to CNS. For CNS Securities, NSCC uses a modified delivery versus payment mechanism in that when a Member delivers securities to CNS, the Member receives a credit, and when NSCC delivers securities to the long receiving Member (a long allocation), the securities deliveries/movements are not final until the "effective time" occurs pursuant to NSCC Rule 12 (Settlement).<sup>8</sup> Specifically,

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<sup>7</sup> See NSCC Rule 11 (CNS System) and Procedure VII (CNS Accounting Operation), *supra* note 5.

<sup>8</sup> Pursuant to NSCC Rule 12, the "effective time" generally occurs when it is clear that NSCC has either been paid, or is in a credit position with respect to a Member or its Settling Bank, and

under the Rules, a CNS delivery transaction is complete and final as to the delivering Member once the securities are debited from the delivering Member's account at DTC and credited to NSCC's CNS account at DTC; however, a CNS delivery transaction would not become final as to the receiving "long" Member until the "effective time."<sup>9</sup>

### *CNS Exemptions*

Each Member has the ability to elect to deliver all or part of any CNS short position through the use of "Exemptions" in CNS. By indicating a particular quantity as an Exemption, the Member directs NSCC not to settle certain short positions or portions thereof. All short positions or positions thereof for which no Exemption is indicated are settled automatically to the extent that the Member has made such securities available in the Member's Designated Depository (i.e., DTC) account, or they become available in its Designated Depository account through other depository activity.

Pursuant to Section D of Procedure VII, a Member may submit daily Exemption instructions to NSCC. Members are also required to submit standing Exemption instructions to NSCC which govern all of the Member's short positions for any day on which specific daily Exemption instructions are (i) not submitted to NSCC; (ii) not received by NSCC; or (iii) unable to be processed by NSCC.<sup>10</sup>

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NSCC has no obligation due with respect to a Member pursuant to the Clearing Agency Cross-Guaranty Agreement. Until the effective time has occurred in accordance with the Rules, NSCC retains ownership rights in the long allocations. *See* NSCC Rule 12, *supra* note 5.

<sup>9</sup> DTC and NSCC have established certain limited cross-guarantees and arrangements to permit transactions to flow smoothly between DTC and NSCC in a collateralized environment. *See* DTC Settlement Service Guide, at 17-18, *available at* [www.dtcc.com/legal/rules-and-procedures](http://www.dtcc.com/legal/rules-and-procedures).

<sup>10</sup> *See* NSCC Procedure VII, Section D, *supra* note 5.

The CNS system currently provides for two levels of Exemption. Level 1 Exemptions indicate that the portion of the short position exempted should not be automatically settled against the Member's current Designated Depository position or against any securities which may be received into its Designated Depository account as a result of other depository activity. Level 2 Exemptions are instructions by the Member that the portion of the short position exempted should not be automatically settled against its current depository position. Such a position may be satisfied, however, by certain types of "qualified" activity in its Designated Depository account.

There are three types of qualified activity which allow short positions carrying Level 2 Exemptions to be settled: (i) Coded Deposits, whereby the Member deposits securities into its Designated Depository account in the normal manner, but by using a special deposit ticket which indicates that these securities are available for settling Level 2 Exemption quantities; (ii) Coded Collateral Loan Releases, whereby the Member may release securities from its Designated Depository collateral loan account and wish those securities to be used in settling a Level 2 Exemption quantity;<sup>11</sup> and (iii) Receipts from Banks, whereby all securities received against payment from banks are eligible to settle Level 2 Exemption quantities. Level 2 Exemptions remain in place until the "qualified activity" event occurs in settlement and are automatically released upon completion of the "qualified activity" event. Settlement of such items is automatic and no special instruction by the Member is required.

*Fully-Paid-For Accounts*

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<sup>11</sup> In this case, the Member uses a special Collateral Loan Release form which authorizes such use.

The Fully-Paid-For Account is a special sub-account within CNS that assists participants in maintaining compliance with possession and control requirements of Rule 15c3-3 under the Act.<sup>12</sup> Members may instruct NSCC to move their expected long allocations from the general CNS “A” subaccount into a fully-paid-for location (the “E” subaccount) and are then permitted to use customer fully-paid-for positions to complete institutional deliveries in DTC. As Members instruct NSCC to move expected long allocations to the fully-paid-for location, NSCC reclassifies the relevant long allocations as a fully-paid-for long allocation and debits the Member the market value of the relevant securities in the NSCC settlement system. These long allocation reclassifications and corresponding settlement debits are posted intraday by NSCC. The funds associated with the fully-paid-for process are collected via NSCC’s end-of-day settlement process and are held by NSCC and used to ensure the customer fully-paid-for positions can be replaced should the Member become insolvent. Upon completion of a fully-paid-for long allocation, the relevant funds are used to pay for the securities received from CNS via NSCC’s end-of-day settlement process.

Additionally, if the Member replaces the customer fully paid for securities in inventory at DTC prior to the receipt of the CNS long allocation, the Member can move the expected long allocation from the fully-paid-for location (the “E” subaccount) back to the general CNS “A” subaccount. Upon completion, the relevant funds are credited back to the Member through NSCC’s end-of-day settlement process.

### **Proposed Changes**

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<sup>12</sup> See 17 CFR 240.15c3-3.

NSCC continually evaluates the efficiency and effectiveness of the services it provides to its Members. As part of these evaluations, and in furtherance of NSCC's ongoing modernization efforts, NSCC is seeking to streamline and simplify its services and processes, including through the elimination of underutilized functionality and services. NSCC has identified Level 2 Exemptions and Fully-Paid-For Accounts as two underutilized functionalities of its CNS system, which do not justify the costs associated with modernizing and maintaining those functionalities in CNS.

#### *CNS Level 2 Exemptions*

NSCC proposes to eliminate the use of Level 2 Exemptions in CNS. Level 2 Exemptions are an underutilized functionality in CNS, and NSCC would have to devote significant resources to maintain and update this functionality, particularly as NSCC modernizes its CNS system. NSCC believes that these resources would be better used to maintain, modernize, and enhance the systems, functionality, and services that are more widely and frequently used by its Members.

NSCC proposes to amend the following Rules to reflect the decommissioning of Level 2 Exemptions. NSCC would amend Section D (Controlling Deliveries to CNS) of Procedure VII (CNS Accounting Operation) to remove all procedural language describing or referencing Level 2 Exemptions and Qualified Activity in CNS. Specifically, NSCC would amend Section D.1. of Procedure VII to remove the description of Level 2 Exemptions and Qualified Activity from the Procedures. NSCC would also make conforming changes throughout Section D of Procedure VII to remove references to there being different types of Exemptions in CNS and make other conforming changes necessary to reflect the elimination of Level 2 Exemptions in CNS.

NSCC performed an assessment of the usage of CNS Level 2 Exemptions, which revealed limited utilization of this functionality across five Members. NSCC performed outreach to the Members currently using Level 2 Exemptions and discussed the alternative tools available to those Members to manage their inventory and control deliveries in CNS. These alternative tools include the use of CNS Level 1 Exemptions, the exemption process in DTC's Inventory Management System ("IMS"),<sup>13</sup> and Memo Segregation at DTC.<sup>14</sup> NSCC also announced its plans to decommission Level 2 Exemptions through Important Notice.<sup>15</sup> There were no material objections or concerns raised by Members. Based on the limited usage of Level 2 Exemptions and the alternative tools available to Members, NSCC believes that decommissioning Level 2 Exemptions would have minimal impact on NSCC and its Members.

NSCC would work with impacted Members to wind down their use of Level 2 Exemptions in advance of the proposed implementation date (as discussed below); however, any Level 2 Exemptions remaining in effect for the implementation date would be automatically converted to Level 1 Exemptions in order to provide for continued Exemption protections for such positions.

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<sup>13</sup> DTC's IMS system enables participants to centrally manage their settlement deliveries. IMS provides a staging area for a participant's transactions by offering various inquiry and prioritization options, audit trails and transaction update capabilities. IMS warehouses most participant transactions and introduces them for settlement processing based on transaction type and user-defined profiles.

<sup>14</sup> Participants can protect fully-paid-for customer securities using DTC's Memo Segregation function. Memo Segregation is similar to the Segregation function, which allows a Participant to protect fully-paid-for customer securities by moving them from a free position to a protected (segregated) position. However, whereas Segregation allows a Participant to move only existing positions, Memo Segregation allows the Participant to create memo-segregated positions within its free positions, thus allowing the Participant to protect anticipated, fully-paid-for customer securities. *See* DTC Settlement Service Guide, at 40-42, *supra* note 9.

<sup>15</sup> *See* [www.dtcc.com/-/media/Files/pdf/2025/4/10/a9580.pdf](http://www.dtcc.com/-/media/Files/pdf/2025/4/10/a9580.pdf).



### *Fully-Paid-For Accounts*

NSCC also proposes to decommission the use of Fully-Paid-For Accounts in CNS. Fully-Paid-For Accounts are underutilized by NSCC Members, and NSCC would have to devote significant resources to maintain and update this functionality, particularly as NSCC modernizes its CNS system. NSCC believes that these resources would be better used to maintain, modernize, and enhance the systems, functionality, and services that are more widely and frequently used by its Members.

NSCC proposes to amend the following Rules to reflect the proposed decommissioning of Fully-Paid-For Accounts. First, NSCC would remove the entirety of Section E.5. (Fully Paid-For Account) of Procedure VII (CNS Accounting Operation), which describes the Fully-Paid-For Account and procedures for movements of securities into and out of the Long Free Account. Second, NSCC would remove Addendum G (Fully Paid-For Account) from the Rules, which further describes the processes for the movement of securities into and out of the Fully-Paid-For Account. Third, NSCC would make a conforming change to Section 2 of Rule 12 (Settlement) to remove rule text describing the “effective time” for certain actions taken by NSCC pursuant to an instruction given to NSCC by a Member to move a position to its Fully-Paid-For Subaccount. This rule would no longer be applicable upon the decommissioning of Fully-Paid-For Accounts. Finally, NSCC would amend Section H (Miscellaneous CNS Activity) of Procedure VII to remove rule text related to certain prohibitions on Members moving positions in subject securities during a voluntary reorganization between the CNS General Account and that Member’s Fully-Paid-For Subaccount. These rules would also no longer be applicable upon the decommissioning of Fully-Paid-For Accounts.

NSCC performed an assessment of the usage of its Fully-Paid-For Accounts over a recent 60 business day review period. This review showed that fewer than 10 Members currently use the Fully-Paid-For Accounts. The assessment also revealed sporadic usage of the accounts for minimal values across those Members. NSCC performed outreach to the Members currently using Fully-Paid-For Accounts and discussed alternative tools available to Members to assist in managing their customer segregation requirements, such as using Memo Segregation at DTC.<sup>16</sup> NSCC also announced its plans to decommission Fully-Paid-For Accounts through Important Notice.<sup>17</sup> There were no material objections or concerns raised by Members. Based on the limited usage of Fully-Paid-For Accounts and the alternatives tools available to Members to assist in managing their customer segregation requirements, NSCC believes that decommissioning Fully-Paid-For Accounts would have minimal impact on NSCC and its Members.

NSCC would work with impacted Members to wind down their use of Fully-Paid-For Accounts in advance of the proposed implementation date (as discussed below); however, any positions remaining in a Member's Fully-Paid-For Account (or the "E" subaccount) on the implementation date would be automatically moved to the Member's general CNS "A" subaccount.

### **Implementation Timeframe**

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<sup>16</sup> See *supra* note 14.

<sup>17</sup> See [www.dtcc.com/-/media/Files/pdf/2025/4/10/a9581.pdf](http://www.dtcc.com/-/media/Files/pdf/2025/4/10/a9581.pdf).

The proposed rule change would be implemented in two phases. The proposed changes concerning Level 2 Exemptions would be implemented on August 28, 2025. The proposed changes concerning Fully-Paid-For Accounts would be implemented on September 11, 2025.

## 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 Act<sup>18</sup> requires that the rules of a clearing agency be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. NSCC believes the proposed rule change is consistent with the requirements of Section 17A(b)(3)(F) of the Act for the reasons stated below.

As described above, NSCC continually evaluates the efficiency and effectiveness of the services it provides to its Members. As part of these evaluations, and in furtherance of NSCC's ongoing modernization efforts, NSCC is seeking to streamline and simplify its services and processes, including through the elimination of underutilized functionality and services. NSCC has identified Level 2 Exemptions and Fully-Paid-For Accounts as two underutilized functionalities of its CNS system. Moreover, there are existing, alternative tools available to Members to assist in managing their inventories, controlling deliveries, and managing their customer segregation requirements. Specifically, in the absence of Level 2 Exemptions, Members can continue to manage

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<sup>18</sup> 15 U.S.C. 78q-1(b)(3)(F).

their inventory and control deliveries in CNS through the use of CNS Level 1 Exemptions, the exemption process in DTC's IMS system, and Memo Segregation at DTC. In the absence of Fully-Paid-For Accounts, Members can use Memo Segregation at DTC to assist in managing their customer segregation requirements. NSCC therefore believes that existing alternative processes would continue to provide prompt and accurate clearance and settlement of securities transactions and the safeguarding of securities and funds at NSCC. For these reasons, NSCC believes the proposed rule change would continue to promote the prompt and accurate clearance and settlement of securities transactions and assure the safeguarding of securities and funds which are in the custody or control of NSCC or for which it is responsible in accordance with Section 17A(b)(3)(F) of the Act.<sup>19</sup>

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

Section 17A(b)(3)(I) of the Act<sup>20</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 that the proposed rule change would impose a burden or otherwise have a significant impact on competition. Level 2 Exemptions and Fully-Paid-For Accounts are two underutilized functionalities of CNS which are each used on a limited basis by fewer than 10 Members. NSCC has performed outreach to those Members using Level 2 Exemptions and Fully-Paid-For Accounts to explain the decommissioning of these functionalities in CNS and the alternative tools available to Members. Based on the limited usage of Level 2 Exemptions and Fully-Paid-For

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<sup>19</sup> *See id.*

<sup>20</sup> 15 U.S.C. 78q-1(b)(3)(I).

Accounts and the alternatives tools available to assist Members in managing their inventories, controlling deliveries, and managing their customer segregation requirements, NSCC believes that decommissioning Level 2 Exemptions and Fully-Paid-For Accounts would have minimal impact on NSCC's Members. NSCC therefore believes the proposed rule change would not impose any 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 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 a Comment, available at [www.sec.gov/rules-regulations/how-submit-comments](http://www.sec.gov/rules-regulations/how-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)<sup>21</sup> of the Act and Rule 19b-4(f)(6)<sup>22</sup> 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 (<https://www.sec.gov/rules-regulations/self-regulatory-organization-rulemaking>);  
or

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

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

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2025-010 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-2025-010. 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 (<https://www.sec.gov/rules-regulations/self-regulatory-organization-rulemaking>). 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 a.m. and 3 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 ([www.dtcc.com/legal/sec-rule-filings](http://www.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-2025-010 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>23</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>23</sup> 17 CFR 200.30-3(a)(12).