

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>36</sup>

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79904; File No. SR-NSCC-2016-008]

### Self-Regulatory Organizations; National Securities Clearing Corporation; Order Granting Approval of Proposed Rule Change To Reflect Updates to the Consolidated Trade Summary, Eliminate Re-Pricing in the Foreign Security Accounting Operation and Make Other Changes

January 31, 2017.

On December 15, 2016, National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) proposed rule change SR-NSCC-2016-008, 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> The proposed rule change was published for comment in the **Federal Register** on December 29, 2016.<sup>3</sup> The Commission did not receive any comment letters on the proposed rule change. For the reasons discussed below, the Commission is granting approval of the proposed rule change.

#### I. Description of the Proposed Rule Change

The proposed rule change consists of amendments to NSCC’s Rules & Procedures (“Rules”)<sup>4</sup> in order to (1) consolidate the file layouts into one common file layout, (2) provide more details in the revised Consolidated Trade Summary (“CTSs”), (3) discontinue a current output format (print image) and introduce a more user-friendly format (referred to as comma separated value or “CSV”) and an online query tool, (4) simplify the terminology in the Rules by referring to each iteration of the CTS as the “Consolidated Trade Summary” (instead of the way in which the Rules are currently drafted to refer to a

“Consolidated Trade Summary” and a “Supplemental Consolidated Trade Summary”), and (5) discontinue the Foreign Securities transaction file because information contained in that additional file would be reflected in the revised CTSs, each of which is described below.

#### A. Changes to the CTS and Technical Changes to the CTS-Related Rules

First, the proposed rule change would consolidate the file layouts of the current CTSs into one common file layout that would be used for each of the three CTSs that are issued each day. Currently, each of the main CTS file, the supplemental CTS file, and the Foreign Securities file has its own individual file layout. NSCC would consolidate these multiple file layouts into one common file layout in the revised CTS file. Having one common layout in the revised CTS would eliminate the need for Members to maintain coding for multiple file layouts.

Second, the proposal would update the CTS output file layout to provide Members with additional transparency and clarity regarding their trade summary, balance orders and receive and deliver instructions, which would help with reconciliation. For example, the current CTS output file layout specifies if a security is a CNS security or a non-CNS security but does not further clarify the non-CNS obligations as guaranteed or not guaranteed. Under the proposal, the CTS output file layout would be expanded to include a field for the guarantee/not guarantee designation to clearly indicate to users whether a trade obligation is guaranteed or not guaranteed. Other examples of new fields that would be added include: (1) Netting type to describe whether netted (e.g., multilaterally netted or bilaterally netted) or trade-for-trade instructions resulted, and (2) a net reason code to add clarity as to the netting type.

Third, Members have also expressed interest in having NSCC change the current file format of the CTSs, which are currently available in print image format and machine-readable (“MRO”) format. As a result, NSCC would discontinue the current print image format while maintaining the current MRO format and would also introduce an online query tool. The print image format would be replaced by CSV which can be downloaded into spreadsheet programs. In addition to the three iterations of the CTS that would continue to be distributed to Members, Members would also be able to use a new online query tool to search information and create their own

custom data view and custom reports. The new online query tool would enable users to research information that has been previously distributed in a CTS. Members have expressed interest in this change in file formats and the online query tool which allows results to be downloaded to spreadsheet programs.

Fourth, from a Rules perspective, the terminology in Procedure II, Section H, Procedure V, Section E and Procedure VII, Section B would be revised, so that each CTS would be referred to as the “Consolidated Trade Summary” and more than one CTS would be referred to as the “Consolidated Trade Summaries.” The proposed rule change would eliminate references to alternate terminology such as “Supplemental Consolidated Trade Summary,” “Supplemental Consolidated Trade Summaries,” and “CTS.” In addition, conforming changes would be made to Procedure V, Section C and Procedure VII, Section B to add phrases and terms such as “next available,” “applicable” and “prior” before references to “Consolidated Trade Summary.” Additional technical changes would be made to clarify that the CTS would continue to be issued to Members three times a day and would continue to be non-cumulative; these changes would apply to Procedure II, Section H, Procedure V, Section E and Procedure VII, Section B. Procedure VII, Section B would also be amended to reflect the change in output format of the Consolidated Trade Summaries (specifically, because the print image format is being discontinued and the CSV format is being introduced, the Rules and terminology must be changed to use terminology consistent with the different format).

Fifth, the Foreign Securities transaction file would be discontinued. Information that is currently in this additional file would be reflected in the revised CTSs.

NSCC would continue to issue the CTSs to Members three times a day, at approximately the same intervals as it does today.<sup>5</sup> The revised CTSs would continue to be iterative (i.e., any information that appeared on prior CTSs would not appear again on any successive CTSs), and also continue to be available in MRO format.

<sup>5</sup> The header of the CTS output file would indicate whether the CTS is for Cycle 1 (i.e., the one issued at approximately 21:00 ET), Cycle 2 (i.e., the one issued at approximately 24:00 ET) or Cycle 3 (i.e., the one issued at approximately 12:00 ET on the next business day).

<sup>36</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> See Securities Exchange Act Release No. 79655 (December 22, 2016), 81 FR 96146 (December 29, 2016) (SR-NSCC-2016-008) (“Notice”).

<sup>4</sup> Capitalized terms not defined herein are defined in the Rules, available at [http://dtcc.com/-/media/Files/Downloads/legal/rules/nsc\\_rules.pdf](http://dtcc.com/-/media/Files/Downloads/legal/rules/nsc_rules.pdf).

*B. Discontinuation of the Re-Pricing of Foreign Securities and Technical Clarifications/Corrections to Procedure VI (Foreign Security Accounting Operation)*

Based on Member feedback, NSCC is also proposing to update the code associated with NSCC's Foreign Security Accounting Operation, which receives and processes Foreign Securities traded over-the-counter and settled in U.S. Dollars.<sup>6</sup> The current foreign netting process aggregates Foreign Securities obligations, bilaterally nets these obligations and then re-prices these obligations using a uniform Settlement Price. As further explained below, NSCC is proposing to no longer re-price these Foreign Securities obligations.

Foreign Securities would continue to be bilaterally netted, but would no longer be re-priced at uniform Settlement Prices. Instead, they would be bilaterally netted at their contract prices to eliminate the risk of a cash adjustment (which is not guaranteed by NSCC) due to re-pricing.

To effectuate this proposed change, NSCC proposes to remove language in Procedure VI, Section C that permits NSCC to establish a uniform Settlement Price and calculate any related Foreign Security Clearance Cash Adjustment associated with the re-pricing. Unlike the underlying Foreign Securities transactions (which are settled in the local markets and not at NSCC), the payments of any Foreign Security Clearance Cash Adjustment (whether due to netting or re-pricing) related to those underlying Foreign Securities transactions are made through NSCC today and under the proposed rule change, this would continue to be the case with respect to Foreign Security Clearance Cash Adjustments that arise due to netting. The proposed rule change would revise the language in Procedure VI to clearly state that the failure of a Member to make payment of the Foreign Security Clearance Cash Adjustment with NSCC will cause NSCC to reverse all such cash adjustment debits and credits (rather than generally stating this would be caused by the failure to "make settlement with the Corporation"). The proposed rule change would further clarify that neither the settlement of the underlying transaction nor the payment of the related Foreign Security Clearance Cash Adjustment would be

guaranteed by NSCC (which is also the case today).<sup>7</sup>

Additional clarifying changes to Procedure VI include revising the reference from "T+2" in Section B to "SD-1" because Foreign Securities transactions are not always settled on T+3 (according to local market practices) and thus, are not always compared on T+2, as Section B of Procedure VI states. Therefore, using Settlement Date (*i.e.*, "SD") as the reference point is more appropriate. Furthermore, Foreign Securities transactions are reported on the CTSs, which are Settlement Date-based. In addition, in Section C, "produced" would be revised to "reported," because "reported" more accurately describes what occurs today—that is, NSCC reports the netted Member-to-Member receive and deliver instructions. In addition, the proposed rule change would make the following corrections: (i) The reference in Section C to "Foreign Security Clearing Cash Adjustment" would be revised to the correct term, "Foreign Security Clearance Cash Adjustment" and (ii) the cross-references to "Section II" and "Section IV" in Section A would be replaced with references to "Procedure II" and "Procedure IV," respectively.

*C. Implementation Timeframe*

These proposed rule changes would become effective by July 14, 2017. After Commission approval of these proposed rule changes, a legend would be added to each of Procedures II, V, VI and VII stating that there are approved but not yet operative changes to the respective Procedure and specifying the applicable section or sections that would be amended by the proposed rule change. The legend would state that such changes would be operative by July 14, 2017, but if such changes become operative before July 14, 2017, NSCC would notify Members by Important Notice 30 days before the actual implementation date. The legend would also state that underlined and boldface text indicates new text and strikethrough and boldface text indicates deleted text. Additionally, the legend would include a reference to the file number of the proposed rule change and would state that once operative, the legend would automatically be removed from the Rules, and the formatting of the text of the changes in the applicable section or sections would automatically

be revised to reflect that these changes have become operative.

**II. Discussion and Commission Findings**

Section 19(b)(2)(C) of the Act<sup>8</sup> directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and rules and regulations thereunder applicable to such organization. The Commission believes the proposal is consistent with Section 17A(b)(3)(F) of the Act.

Section 17A(b)(3)(F) of the Act requires, in part, that NSCC's Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions and to protect investors and the public interest.<sup>9</sup> The Commission believes that the proposed rule changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC, in particular Section 17(A)(b)(3)(F), because the proposed rule changes promote the prompt and accurate clearance and settlement of securities transactions.<sup>10</sup>

Specifically, by updating the CTS to provide more details and information in one common file layout, the proposal would provide Members with more transparency and clarity regarding their trade obligations, which could help Members better understand their reconciliation of trades for settlement. Furthermore, Members would receive the CTS in a more user-friendly format (*i.e.*, CSV). With the new online query tool, Members would also be able to access trade obligation information that has been distributed in prior CTSs and customize searches of trade obligation information according to their needs. Therefore, the Commission believes that these changes to the CTS would make it a more effective tool for Members to help manage their settlement obligations, thus promoting the prompt and accurate clearance of securities transactions.

Additionally, the Commission believes that the proposed rule changes associated with the Foreign Security Accounting Operation are designed to protect investors and the public interest.<sup>11</sup> Specifically, the proposed rule change would address the timing mismatch between the receipt of the CTS by Members and the settlement of Foreign Securities trades in the local markets by Members by discontinuing

<sup>7</sup> Under the proposed rule change, only a Foreign Security Clearance Cash Adjustment due to re-pricing would be eliminated. A Foreign Security Clearance Cash Adjustment due to netting is still possible, so this Procedure is still applicable to such Foreign Security Clearance Cash Adjustments.

<sup>8</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>9</sup> 15 U.S.C. 78q-1(b)(3)(F).

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>6</sup> See Procedure VI (Foreign Security Accounting Operation).

the practice of re-pricing Foreign Securities at the uniform Settlement Prices. This change also would eliminate Member exposure from a cash adjustment due to re-pricing and the associated risk that a solvent Member could be liable for the cash adjustment if its counterparty defaults because the cash adjustment is not guaranteed by NSCC. Therefore, the Commission believes that the proposed rule change promotes investor protection and the public interest.<sup>12</sup>

As the proposed rule change pertains to technical changes to the Rules, the Commission finds the technical changes also consistent with Section 17A(b)(3)(F) of the Act<sup>13</sup> because the technical updates are designed to make the Rules more clear, consistent, and current for Members that rely on them. Therefore, the proposed technical changes help support NSCC's prompt and accurate clearance and settlement of securities transactions made by Members.

### III. Conclusion

On the basis of the foregoing, the Commission finds that the proposals are consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act<sup>14</sup> and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that proposed rule change SR-NSCC-2016-008 be, and hereby is, *approved*.<sup>15</sup>

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>16</sup>

**Eduardo A. Aleman,**  
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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79908; File No. SR-NYSEARCA-2017-04]

### Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, To Adopt the Rule 6.6800 Series To Implement the Compliance Rule Regarding the National Market System Plan Governing the Consolidated Audit Trail

January 31, 2017.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the "Act")<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on January 17, 2017, NYSE Arca, Inc. (the "Exchange" or "NYSE Arca") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. On January 30, 2017, the Exchange filed Amendment No. 1 to the proposed rule change, which amended and replaced the proposed rule change in its entirety. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposed rule change to adopt the Rule 6.6800 Series to implement the compliance rule ("Compliance Rule") regarding the National Market System Plan Governing the Consolidated Audit Trail (the "CAT NMS Plan" or "Plan").<sup>4</sup> The proposed rule change is available on the Exchange's Web site at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission's Public Reference Room.

#### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization 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 those statements may be examined at

the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

#### A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

##### 1. Purpose

This Amendment No. 1 amends and replaces in its entirety the original proposal filed by the Exchange on January 17, 2017. The Exchange submits this Amendment No. 1 in order to clarify certain points and add additional details to the Compliance Rule as proposed herein.

Bats BYX Exchange, Inc., Bats BZX Exchange, Inc., Bats EDGA Exchange, Inc., Bats EDGX Exchange, Inc., BOX Options Exchange LLC, C2 Options Exchange, Incorporated, Chicago Board Options Exchange, Incorporated, Chicago Stock Exchange, Inc., Financial Industry Regulatory Authority, Inc., International Securities Exchange, LLC, Investors' Exchange LLC, ISE Gemini, LLC, ISE Mercury, LLC, Miami International Securities Exchange LLC, MIA X PEARL, LLC, NASDAQ BX, Inc., NASDAQ PHLX LLC, The NASDAQ Stock Market LLC, National Stock Exchange, Inc., New York Stock Exchange LLC, NYSE MKT LLC, and NYSE Arca, Inc. (collectively, the "Participants") filed with the Commission, pursuant to Section 11A of the Exchange Act<sup>5</sup> and Rule 608 of Regulation NMS thereunder,<sup>6</sup> the CAT NMS Plan.<sup>7</sup> The Participants filed the Plan to comply with Rule 613 of Regulation NMS under the Exchange Act. The Plan was published for comment in the **Federal Register** on May 17, 2016,<sup>8</sup> and approved by the Commission, as modified, on November 15, 2016.<sup>9</sup>

The Plan is designed to create, implement and maintain a consolidated audit trail ("CAT") that would capture customer and order event information

<sup>5</sup> 15 U.S.C. 78k-1.

<sup>6</sup> 17 CFR 242.608.

<sup>7</sup> See Letter from the Participants to Brent J. Fields, Secretary, Commission, dated September 30, 2014; and Letter from Participants to Brent J. Fields, Secretary, Commission, dated February 27, 2015. On December 24, 2015, the Participants submitted an amendment to the CAT NMS Plan. See Letter from Participants to Brent J. Fields, Secretary, Commission, dated December 23, 2015.

<sup>8</sup> See Securities Exchange Act Release No. 77724 (April 27, 2016), 81 FR 30614 (May 17, 2016).

<sup>9</sup> See Securities Exchange Act Release No. 79318 (November 15, 2016), 81 FR 84696 (November 23, 2016) ("Order Approving the National Market System Plan Governing the Consolidated Audit Trail") ("Approval Order").

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*

<sup>14</sup> 15 U.S.C. 78q-1.

<sup>15</sup> In approving the proposed rule change, the Commission considered the proposals' impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>16</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

<sup>4</sup> Unless otherwise specified, capitalized terms used in this rule filing are defined as set forth herein or in the CAT NMS Plan.