

because it is a regulatory fee that supports regulation in furtherance of the purposes of the Act. The Exchange is obligated to ensure that the amount of regulatory revenue collected from the ORF, in combination with its other regulatory fees and fines, does not exceed regulatory costs.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

No written comments were either solicited or received.

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

The foregoing rule change is effective upon filing pursuant to Section 19(b)(3)(A)²³ of the Act and subparagraph (f)(2) of Rule 19b-4²⁴ thereunder, because it establishes a due, fee, or other charge imposed by the Exchange.

At any time within 60 days of the filing of such 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 shall institute proceedings under Section 19(b)(2)(B)²⁵ of the Act to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File No. SR-Phlx-2021-39 on the subject line.

Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090. All submissions should refer to File No. SR-Phlx-2021-39. This file number

should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-Phlx-2021-39, and should be submitted on or before September 1, 2021.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁶

Jill M. Peterson,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-92566; File No. SR-NSCC-2021-011]

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change To Remove ID Net Transactions From the Required Fund Deposit Calculations and Make Other Changes to the Rules

August 5, 2021.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,²

notice is hereby given that on July 27, 2021, 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. 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 NSCC's Rules & Procedures ("Rules") to (1) remove transactions processed through the ID Net Service from the calculation of Members' Required Fund Deposits to the Clearing Fund; (2) provide greater transparency regarding the status of the ID Net Service as a non-guaranteed service and how transactions processed through the ID Net Service are handled following a Member default; and (3) make other changes to the Rules to implement these proposed changes, as described in greater detail below.³

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

NSCC is proposing to revise its margining methodology to remove institutional delivery ("ID") transactions that are processed through the ID Net Service from the calculation of Members' Required Deposits to the Clearing Fund, as described in greater detail below.⁴ While ID transactions processed through the ID Net Service ("ID Net Transactions") are netted with transactions that have been processed through NSCC's continuous net

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

⁴ See Rule 65 (ID Net Service) and Procedure XVI (ID Net Service) of the Rules, *supra* note 3.

²³ 15 U.S.C. 78s(b)(3)(A).

²⁴ 17 CFR 240.19b-4(f)(2).

²⁵ 15 U.S.C. 78s(b)(2)(B).

²⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

settlement (“CNS”) system, these transactions are not subject to NSCC’s trade guarantee.⁵ Therefore, the proposed change would improve NSCC’s ability to collect Required Fund Deposits from its Members that more accurately reflect the positions that it may be required to complete in the event of a Member default.

NSCC is also proposing to amend the Rules to provide greater transparency regarding the status of the ID Net Service as a non-guaranteed service and how ID Net Transactions are handled following a Member default. Finally, NSCC is proposing to make other changes to the Rules to implement these proposed changes.

Overview of ID Transactions and the ID Net Service

The parties involved in an ID transaction include the institutional investor (such as mutual funds, insurance companies, hedge funds, bank trust departments and pension funds), the investment manager (who enters trade orders on behalf of institutional investors), the buying broker and the selling broker, and custodian banks. After execution, the trade allocation details of ID transactions are matched between the executing broker and the investment manager or institutional investor’s custodian bank. After an executing broker has provided a final notice of execution, most investment managers will provide client trade allocation details to the executing broker using a service provided by NSCC’s affiliate, Institutional Trade Processing (“ITP”).

When the executing broker accepts and processes the trade allocations, an electronic confirmation is provided through ITP’s TradeSuite ID™ service to the investment manager or the institutional investor’s custodian bank for affirmation.⁶ ITP links with the various parties to institutional trades to provide real-time central matching electronically comparing trade details and notifying parties of any exceptions.⁷ After the trade allocation details are affirmed, the institutional delivery details are sent to The Depository Trust Company (“DTC”) where the trade is settled. NSCC risk management receives

a daily feed from ITP that includes both ID transactions that have only been confirmed as well as those that have also been affirmed. Some eligible ID transactions may be processed through NSCC’s CNS Accounting Operation or Balance Order Accounting Operation, as applicable, for clearance and settlement with the buying broker and selling broker as counterparties.⁸

Alternatively, Members may subscribe for the ID Net Service and direct ID transactions to be submitted to NSCC and DTC pursuant to this service. The ID Net Service is a joint service of NSCC and DTC that allows the executing brokers that are subscribers to the service to net affirmed eligible ID transactions that are held at DTC with transactions that have been processed through CNS. ID Net Transactions net with CNS obligations to create efficiencies in settlement but these transactions are not processed through CNS. The ID Net Service accepts affirmed transactions in Eligible ID Net Securities (as defined in Rule 65 (ID Net Service) of the Rules) and nets the broker-dealer side of such transactions with the broker-dealer’s CNS obligations.⁹ Most equity securities that are eligible for processing through CNS are Eligible ID Net Securities.

Participation in the ID Net Service is voluntary. Eligibility for the ID Net Service requires that the broker-dealer in the ID transaction be an NSCC Member and a participant of DTC. The custodian bank in the ID transaction must be a DTC participant. In addition, eligibility for ID Net Service processing is based on the underlying security being processed, the type of transaction submitted for processing, and the timing of affirmation. As described in Procedure XVI of the Rules, ID Net Transactions that are not completed by the cut-off time established by NSCC (currently 11:30 a.m. EST) on settlement day are exited from NSCC’s systems and must be settled on a trade-for-trade basis away from NSCC.¹⁰

This service provides Members with the operational benefit of netting these transactions with their CNS obligations, allowing them to combine their affirmed ID transactions with other trades in CNS. As noted above, ID Net transactions are not subject to NSCC’s trade guarantee.

Required Fund Deposit and Risk Management of ID Net Transactions

As part of its market risk management strategy, NSCC manages its credit exposure to Members by determining the appropriate Required Fund Deposits to the Clearing Fund and monitoring its sufficiency, as provided for in the Rules.¹¹ The Required Fund Deposit serves as each Member’s margin. The objective of a Member’s Required Fund Deposit is to mitigate potential losses to NSCC associated with liquidating a Member’s portfolio in the event NSCC ceases to act for that Member (hereinafter referred to as a “default”).¹² The aggregate of all Members’ Required Fund Deposits constitutes the Clearing Fund of NSCC. NSCC would access its Clearing Fund should a defaulting Member’s own Required Fund Deposit be insufficient to satisfy losses to NSCC caused by the liquidation of that Member’s portfolio.

Pursuant to the Rules, each Member’s Required Fund Deposit amount consists of a number of applicable components, each of which is calculated to address specific risks faced by NSCC, and are described in Procedure XV of the Rules.¹³ Because ID Net Transactions are netted with CNS transactions, these transactions are currently included in the netted positions that are used to calculate certain components of Members’ Required Fund Deposits. These components include the volatility component, the mark-to-market component, which includes both a Regular Mark-to-Market charge and an ID Net Mark-to-Market charge, the Margin Requirement Differential component (“MRD charge”), and a margin liquidity adjustment charge (“MLA charge”).

The volatility component of each Member’s Required Fund Deposit is designed to measure market price volatility and is calculated for Members’ net of unsettled pending positions, defined as “Net Unsettled Positions.”¹⁴ Currently, Members’ Net Unsettled Positions, for purposes of calculating

¹¹ See Rule 4 (Clearing Fund) and Procedure XV (Clearing Fund Formula and Other Matters), *supra* note 3. NSCC’s market risk management strategy is designed to comply with Rule 17Ad-22(e)(4) under the Act, where these risks are referred to as “credit risks.” 17 CFR 240.17Ad-22(e)(4).

¹² The Rules identify when NSCC may cease to act for a Member and the types of actions NSCC may take. For example, NSCC may suspend a firm’s membership with NSCC or prohibit or limit a Member’s access to NSCC’s services in the event that Member defaults on a financial or other obligation to NSCC. See Rule 46 (Restrictions on Access to Services) of the Rules, *supra* note 3.

¹³ *Supra* note 3.

¹⁴ See Sections I(A)(1)(a) and (2)(a) of Procedure XV of the Rules, *supra* note 3.

⁵ Transactions processed through the ID Net Service have never been subject to NSCC’s trade guarantee. This service was implemented only to provide Members with the operational benefit of netting these transactions with their CNS obligations, as described in greater detail below.

⁶ For more information regarding this service, see <https://www.dtcc.com/institutional-trade-processing/itp/tradesuite-id>.

⁷ Exceptions occur when the mandatory matching fields (for example, security identifier or settlement date) do not match.

⁸ See Section B (Institutional Clearing Service) of Procedure IV (Special Representative Service) of the Rules, *supra* note 3.

⁹ See *supra* note 4.

¹⁰ *Supra* note 3.

the volatility component, include ID Net Transactions. The volatility component captures the market price risk associated with each Member's portfolio at a 99th percentile level of confidence. NSCC has two methodologies for calculating the volatility component. The volatility component applicable to most Net Unsettled Positions is calculated using a parametric Value at Risk ("VaR") model and usually comprises the largest portion of a Member's Required Fund Deposit ("VaR Charge").¹⁵

The mark-to-market component measures the unrealized profit or loss using the contract price versus the Current Market Price (which is the price for a security determined daily for purposes of the CNS system; generally, the prior day's closing price).¹⁶ NSCC calculates both a Regular Mark-to-Market charge and, for Members that subscribe to the ID Net Service, NSCC also calculates a separate ID Net mark-to-market component with respect to only ID Net Transactions, using the same calculation, referred to in the Rules as the ID Net Mark-to-Market charge.¹⁷ For both calculations, and only with respect to Members that use the ID Net Service, if the mark-to-market calculation results in a positive number, there is no mark-to-market charge applied.¹⁸

The MRD charge is designed to help mitigate the risks posed to NSCC by day-over-day fluctuations in a Member's portfolio by forecasting future changes in a Member's portfolio based on a 100-day historical look-back at each Member's portfolio over a given time period.¹⁹ Currently, the charge is calculated as the sum of the changes in a Member's Regular Mark-to-Market charge, ID Net Mark-to-Market charge, and volatility component over the look-back period. Finally, the MLA charge is designed to address the risk presented to NSCC when a Member's portfolio contains large Net Unsettled Positions in a particular group of securities with a similar risk profile or in a particular asset type.²⁰ Similar to the volatility

component, the MLA charge is calculated on a Member's Net Unsettled Positions, which currently includes ID Net Transactions.

Proposed Enhancement to NSCC's Margining Methodology

NSCC is proposing to enhance its margining methodology to remove ID Net Transactions from the calculation of Members' Required Fund Deposits. NSCC does not guaranty the completion of these ID Net Transactions, so, in the event of a Member default, these transactions are excluded from NSCC's operations to be settled away from NSCC. By removing ID Net Transactions from the calculation of Members' Required Fund Deposits, NSCC would be able to calculate and collect an amount that more accurately reflects the risks presented by positions it would be obligated to complete in the event of a Member default.

Including ID Net Transactions in the margin calculations presents the risk that NSCC is either under-margining or over-margining the positions of Members that use the ID Net Service.²¹ However, NSCC does not expect the proposed change to have a material impact on the size of its Clearing Fund. At the time of this filing, only twelve Members are subscribed to the ID Net Service, and their Required Fund Deposits are driven primarily by their CNS and Balance Order activity. For most of these Members, the inclusion of ID Net Transactions in margin calculations has an immaterial impact on these Members' Required Fund Deposits on a typical business day. In connection with its regular review of its margining methodology, NSCC has determined that it could more accurately and, therefore, more effectively measure the risks it faces following a Member default by removing these non-guaranteed positions from its margining methodology.

In order to implement this proposed change, NSCC would remove ID Net Transactions from Members' Net Unsettled Positions for purposes of calculating the volatility charge and the MLA charge. NSCC would also (1) eliminate the ID Net Mark-to-Market charge from the Required Fund Deposit calculations by removing Section I(A)(1)(c) from Procedure XV of the

Rules and (2) amend Section I(A)(1)(b) of Procedure XV of the Rules to make clear that ID Net Transactions are not included in the calculation of the Regular Mark-to-Market charge. Finally, NSCC would amend Section I(A)(1)(f) (which will be renamed Section I(A)(1)(e) following implementation of the proposed changes) and Section I(A)(2)(d) of Procedure XV of the Rules, which describe the calculation of the MRD charge, to remove the ID Net Mark-to-Market charge from this description.

NSCC is not proposing any other changes to the calculation of these margin charges and is not proposing any changes to the operation of the ID Net Service.

Proposed Changes to Clarify the Non-Guaranteed Status of ID Net Service

NSCC is also proposing to amend Rule 65 (ID Net Service) and Rule 18 (Procedures for when the Corporation Declines or Ceases to Act) to provide greater transparency and clarity into how ID Net Transactions are processed in the event of a Member default. As stated above, the ID Net Service provides Members with the operational benefit of netting these transactions through NSCC's CNS system, allowing them to combine their affirmed ID transactions with other trades in CNS. However, ID Net Transactions are not subject to NSCC's trade guarantee and would be exited from NSCC's systems in the event of a Member default.

Currently, Rule 65 current describes the circumstances in which NSCC may remove a Member's status as an ID Net Subscriber, which include the circumstances that provide NSCC with the right to suspend, prohibit or limit a Member's access to NSCC's services under Rule 46 (Restrictions on Access to Services) of the Rules.²² Additionally, Procedure XVI (ID Net Service) of the Rules describes NSCC's ability to exit ID Net Transactions from its operations.²³ Because the ID Net Service is not a guaranteed service, NSCC would rely on these rules to exit ID Net Transactions from its operations in the event of a Member default. Specifically, if NSCC ceases to act for a Member that is an ID Net Subscriber, that firm would no longer be eligible to use the service pursuant to Rule 65, and NSCC would exit its ID Net Transactions from its operations, and those transactions would be settled on a trade-for-trade basis outside the ID Net Service.²⁴ NSCC

¹⁵ As described in Procedure XV, Section I(A)(1)(a)(ii), (iii) and (iv), and Section I(A)(2)(a)(ii), (iii) and (iv) of the Rules, Net Unsettled Positions in certain securities are excluded from the VaR Charge and instead charged a volatility component that is calculated by multiplying the absolute value of those Net Unsettled Positions by a percentage. *Supra* note 3.

¹⁶ See Section I(A)(1)(b) of Procedure XV of the Rules, *supra* note 3. See also the definition of "Current Market Price" in Rule 1 (Definitions and Descriptions), *id.*

¹⁷ See Section I(A)(1)(c) of Procedure XV of the Rules, *supra* note 3.

¹⁸ See *id.*

¹⁹ See Section I(A)(1)(f) and (d) of Procedure XV of the Rules, *supra* note 3.

²⁰ See *supra* note 3.

²¹ For example, if the inclusion of ID Net Transactions in a Member's Net Unsettled Positions results in a lower margin charge (as compared to the margin charge that would have been calculated for that Member if those ID Net Transactions were excluded from its Net Unsettled Positions), NSCC could be under-margining on that Net Unsettled Position.

²² See Section 5(b) of Rule 65 (ID Net Service) and Section 1 of Rule 46 (Restrictions on Access to Services) of the Rules, *supra* note 3.

²³ See *supra* note 3.

²⁴ See Securities Exchange Act Release No. 57901 (June 2, 2008), 73 FR 32373, at 32375 (June 6, 2008)

is proposing to amend Rules 65 and 18 of the Rules to improve the transparency of the Rules in describing this service as non-guaranteed and to provide clarity on how these transactions will be processed in the event of a Member default.

First, NSCC would include a statement in a new Section 5(c) of Rule 65 of the Rules that states the ID Net Service is not a guaranteed service, and refers to Rule 18 of the Rules to describe how ID Net Transactions would be treated if NSCC ceases to act for a Member that is an ID Net Subscriber. Second, NSCC would amend Section 2(a) of Rule 18 of the Rules to make it clear that uncompleted transactions processed through the ID Net Service in accordance with Rule 65 would be excluded from NSCC's operations if NSCC ceased to act for a Member that is an ID Net Subscriber pursuant to Rule 46 of the Rules.

The proposed changes to Rules 65 and 18 of the Rules would use language that is similar to language used to describe two other non-guaranteed NSCC services—the Automated Customer Account Transfer Service (“ACATS”) and the Obligation Warehouse (“OW”) service.²⁵ By using parallel language in describing the nature of each of these services as non-guaranteed and how transactions processed through these services would be excluded from NSCC's operations following a Member default, the proposed changes would create consistency and clarity within the Rules, improving the Rules' transparency to Members.

Other Proposed Changes to the NSCC Rules To Implement the Proposal

NSCC is proposing additional changes to the Rules in order implement the proposed changes described above. First, NSCC would move the definitions of “Net Unsettled Positions” and “Net Balance Order Unsettled Positions” from Procedure XV (Clearing Fund Formula and Other Matters) to Rule 1 (Definitions and Descriptions) of the Rules. In moving the definition of this term, which is used for the calculation of both the volatility component and the MLA charge, to Rule 1 of the Rules, NSCC would simplify the description of the calculation of these charges. NSCC would also amend the definition of Net

Unsettled Positions to implement the proposed change to remove ID Net Transactions from these positions. Other than with respect to the removal of ID Net Transactions from these positions, the meaning of the term “Net Unsettled Positions” would not change from its current meaning.

NSCC is also proposing to change the defined term “Regular Mark-to-Market” charge to the “Mark-to-Market” charge in Procedure XV of the Rules.²⁶ Following the proposed change to eliminate the ID Net Mark-to-Market charge, as described above, the Regular Mark-to-Market charge would be the only mark-to-market charge that is calculated by NSCC. Therefore, it will no longer be necessary to refer to this charge as the “Regular” mark-to-market charge.

Finally, NSCC is proposing to re-number the margin components in Section I(A)(1) of Procedure XV of the Rules to reflect the deletion of the ID Mark-to-Market charge, and to update the references to these components in the description of the Excess Capital Premium charge.²⁷

(i) Implementation Timeframe

NSCC would implement the proposed changes no later than 10 Business Days after the approval of the proposed rule change by the Commission. NSCC would announce the effective date of the proposed changes by Important Notice posted to its website.

2. Statutory Basis

NSCC believes that the proposed changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing agency. In particular, NSCC believes the proposed changes are consistent with Section 17A(b)(3)(F) of the Act,²⁸ and Rules 17Ad-22(e)(4)(i) and (e)(6)(i), each promulgated under the Act,²⁹ for the reasons described below.

Section 17A(b)(3)(F) of the Act requires that the rules of NSCC be designed to, among other things, assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible.³⁰ The proposed change to remove ID Net Transactions from the calculation of the Members' Required Fund Deposits would allow NSCC to calculate these amounts using only the

positions that it may be required to complete in the event of a Member default. The proposed change would assist NSCC in calculating and collecting margin requirements that better reflect the risks it may face in liquidating a defaulted Member's positions. The Clearing Fund is a key tool that NSCC uses to mitigate potential losses to NSCC associated with liquidating a Member's portfolio in the event of Member default. The proposal to enhance the calculation of margin requirements by removing non-guaranteed positions would enable NSCC to better measure the risks it faces in the event of a Member default, such that NSCC's operations would not be disrupted and non-defaulting Members would not be exposed to losses they cannot anticipate or control in such an event.

Additionally, the proposed changes to include transparency around the nature of the ID Net Service as a non-guaranteed service and clarity on how ID Net Transactions are processed following a Member default, and to update the Rules to implement the other proposed changes, would make the Rules more effective in communicating Members' rights and obligations in connection with the use of the ID Net Service. When Members better understand their rights and obligations regarding the Rules, they are more likely to act in accordance with the Rules, which NSCC believes would promote the prompt and accurate clearance and settlement of securities transactions.

Therefore, the proposed changes are designed to assure the safeguarding of securities and funds which are in the custody or control of NSCC or for which it is responsible, consistent with Section 17A(b)(3)(F) of the Act.³¹

Rule 17Ad-22(e)(4)(i) under the Act requires, in part, that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.³² As described above, the proposed change to remove ID Net Transactions from the calculation of Required Fund Deposits of Members that are ID Net Subscribers would enable NSCC to more accurately measure the risks presented by those Members' guaranteed positions.

(File Nos. SR-DTC-2007-14; SR-NSCC-2007-14) (“If the transaction becomes ineligible for any reason, the transaction will be exited from the ID Net Service processing and will be settled on a trade-for-trade basis between the ID Net Firm and the ID Net Bank outside of the ID Net Service at DTC.”)

²⁵ See Rule 50 (Automated Customer Account Transfer Service) and Rule 51 (Obligation Warehouse), *supra* note 3.

²⁶ See Section I(A)(1)(c) of Procedure XV of the Rules, *supra* note 3.

²⁷ See Section I(B)(2) of Procedure XV of the Rules, *supra* note 3.

²⁸ 15 U.S.C. 78q-1(b)(3)(F).

²⁹ 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i).

³⁰ 15 U.S.C. 78q-1(b)(3)(F).

³¹ *Id.*

³² 17 CFR 240.17Ad-22(e)(4)(i).

Therefore, NSCC believes the proposal would enhance NSCC's ability to effectively identify, measure, monitor and, through the collection of Required Fund Deposits, manage its credit exposures to Members by maintaining sufficient financial resources to cover its credit exposure fully with a high degree of confidence. As such, NSCC believes the proposed changes are consistent with Rule 17Ad-22(e)(4)(i) under the Act.³³

Rule 17Ad-22(e)(6)(i) under the Act requires, in part, that NSCC establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.³⁴ The Required Fund Deposits are made up of risk-based components (as margin) that are calculated and assessed daily to limit NSCC's credit exposures to Members. NSCC's proposal to remove ID Net Transactions from the calculation of Required Fund Deposits is designed to enable NSCC to more effectively measure the risks presented by its Members' guaranteed positions and, therefore, assess a more appropriate level of margin. The proposed change is designed to assist NSCC in maintaining a risk-based margin system that considers, and produces margin levels commensurate with, the risks and particular attributes of Members' portfolios. Therefore, NSCC believes the proposed change is consistent with Rule 17Ad-22(e)(6)(i) under the Act.³⁵

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

NSCC believes that the proposed change to remove ID Net Transactions from the calculation of Required Fund Deposits of Members that are ID Net Subscribers could have an impact on competition. Specifically, NSCC believes the proposed change could burden competition because it may result in either larger or smaller Required Fund Deposit amounts for those Members. When the proposal results in a larger Required Fund Deposit, the proposed change could burden competition for Members that have lower operating margins or higher costs of capital compared to other Members. However, any increase or decrease in a Required Fund Deposit is

not expected to be material and would be the result of a margin calculation that more accurately reflects the risks presented by each Member's guaranteed positions. As such, NSCC believes that any burden on competition imposed by the proposed change would not be significant and, further, would be both necessary and appropriate in furtherance of NSCC's efforts to mitigate risks and meet the requirements of the Act, as described in this filing and further below.

NSCC believes the above described burden on competition that may be created by the proposed change would be necessary in furtherance of the Act, specifically Section 17A(b)(3)(F) of the Act.³⁶ As stated above, the proposal is designed to assist NSCC in better estimating and collecting margin requirements that reflect the risks it may face in liquidating a defaulted Member's guaranteed positions. Therefore, NSCC believes this proposed change is consistent with the requirements of Section 17A(b)(3)(F) of the Act, which requires that the Rules be designed to assure the safeguarding of securities and funds that are in NSCC's custody or control or which it is responsible.³⁷

NSCC believes the proposal would also support NSCC's compliance with Rules 17Ad-22(e)(4)(i) and Rule 17Ad-22(e)(6)(i) under the Act, which require NSCC to establish, implement, maintain and enforce written policies and procedures reasonably designed to (x) effectively identify, measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence; and (y) cover its credit exposures to its participants by establishing a risk-based margin system that, at a minimum, considers, and produces margin levels commensurate with, the risks and particular attributes of each relevant product, portfolio, and market.³⁸

As described above, NSCC believes the proposal to remove ID Net Transactions from the calculation of Required Fund Deposits would enable it to more effectively measure the risks presented by its Members' guaranteed positions, and improve its ability to maintain a risk-based margin system that considers, and produces margin levels commensurate with, the risks of each Member's portfolio. Therefore, the proposed change would better limit

NSCC's credit exposures to Members, consistent with the requirements of Rules 17Ad-22(e)(4)(i) and Rule 17Ad-22(e)(6)(i) under the Act.³⁹ NSCC believes that the above described burden on competition that could be created by the proposed change would be appropriate in furtherance of the Act because such change has been appropriately designed to assure the safeguarding of securities and funds which are in the custody or control of NSCC or for which it is responsible, as described in detail above. The proposal would also enable NSCC to produce margin levels more commensurate with the risks and particular attributes of each Member's portfolio by removing non-guaranteed positions from the calculation of Required Fund Deposits. NSCC believes that it has designed the proposed change in an appropriate way in order to meet compliance with its obligations under the Act. Specifically, the proposal would improve the risk-based margining methodology that NSCC employs to set margin requirements and better limit NSCC's credit exposures to its Members. Therefore, as described above, NSCC believes the proposed change is necessary and appropriate in furtherance of NSCC's obligations under the Act, specifically Section 17A(b)(3)(F) of the Act⁴⁰ and Rules 17Ad-22(e)(4)(i) and Rule 17Ad-22(e)(6)(i) under the Act.⁴¹

The proposed rule changes to increase transparency regarding the ID Net Service and to update the Rules to implement the other proposed changes would help ensure that the Rules remain clear and accurate. In addition, these changes would facilitate Members' understanding of the Rules and their obligations thereunder. These changes would not affect NSCC's operations or the rights and obligations of the membership. As such, NSCC believes these proposed rule changes would not have any impact on competition.

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

NSCC has not received or solicited any written comments relating to this proposal. If any written comments are received, 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

³³ *Id.*

³⁴ 17 CFR 240.17Ad-22(e)(6)(i).

³⁵ *Id.*

³⁶ 15 U.S.C. 78q-1(b)(3)(F).

³⁷ *Id.*

³⁸ 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i).

³⁹ *Id.*

⁴⁰ 15 U.S.C. 78q-1(b)(3)(F).

⁴¹ 17 CFR 240.17Ad-22(e)(4)(i), (e)(6)(i).

(Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions.

Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

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

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

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

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) By order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File Number SR-NSCC-2021-011 on the subject line.

Paper Comments

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549.
- All submissions should refer to File Number SR-NSCC-2021-011. This file number should be included on the subject line if email is used. To help the

Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of NSCC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSCC-2021-011 and should be submitted on or before September 1, 2021.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴²

J. Matthew DeLesDernier,

Assistant Secretary.

[FR Doc. 2021-17074 Filed 8-10-21; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-92584; File No. SR-OCC-2021-007]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Concerning The Options Clearing Corporation's Governance Arrangements

August 5, 2021.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act" or "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 30, 2021, The Options

Clearing Corporation ("OCC") 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 primarily by OCC. 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

This proposed rule change by OCC would provide OCC's Board of Directors ("Board") with the discretion to elect either an Executive Chairman or a Non-Executive Chairman to preside over the Board, provide OCC's Board and stockholders with the discretion to elect a Management Director, clarify the respective authority and responsibility of any Executive Chairman or Non-Executive Chairman, and make other clarifying, conforming, and administrative changes to OCC's rules.

The proposed changes to OCC's By-Laws, Rules, Board of Directors Charter and Corporate Governance Principles ("Board Charter"), Audit Committee Charter, Compensation and Performance Committee Charter, Governance and Nominating Committee Charter, Risk Committee Charter, Technology Committee Charter (such committee charters collectively being the "Board Committee Charters"), and Amended and Restated Stockholders Agreement ("Stockholders Agreement") (all collectively, the "OCC Governing Documents") have been provided as Exhibits 5A-5I of OCC filing SR-OCC-2021-007. Material proposed to be added to the OCC Governing Documents is marked by underlining. Material proposed to be deleted from the OCC Governing Documents is marked by strikethrough. All terms with initial capitalization that are not otherwise defined herein have the same meaning as set forth in OCC's By-Laws and Rules.³

II. Clearing Agency's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed

³ OCC's By-Laws and Rules can be found on OCC's public website at <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules>. OCC's Board and Board Committee Charters are also available on OCC's public website: <https://www.theocc.com/about/corporate-information/board-charter>.

⁴² 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.