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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-89322; File No. SR-NSCC-2020-013]

### **Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Remove the NSCC Equity Options and Bond Options Service from Addendum M of the NSCC Rules & Procedures**

July 15, 2020

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 July 10, 2020, 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)(4) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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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)(4).

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") in order to remove the NSCC Equity Options and Bond Options Service from Addendum M ("Addendum M") of the Rules, 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

Background – Equity Options and Bond Options Service. In 2004, NSCC established a confirmation and matching service for over-the-counter ("OTC") equity options transactions, called the NSCC Equity Options Service.<sup>6</sup> The NSCC Equity

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<sup>5</sup> Capitalized terms not defined herein are defined in the Rules available at [https://www.dtcc.com/~media/Files/Downloads/legal/rules/nscc\\_rules.pdf](https://www.dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf).

<sup>6</sup> Securities Exchange Act Release No. 50652 (November 10, 2004), 69 FR 67377 (November 17, 2004) (SR-NSCC-2004-04). The Commission granted approval on a temporary basis through May 31, 2005. Id. A subsequent NSCC rule filing sought permanent approval of the service and was approved on May 26, 2005.

Options Service was created as a service by NSCC for NSCC's affiliate, DTCC Deriv/SERV LLC ("Deriv/SERV"), in connection with an OTC equity options confirmation and matching service developed and operated by Deriv/SERV ("OTC Matching and Confirmation Service").<sup>7</sup> The NSCC Equity Options Service was added as Addendum M to the Rules.<sup>8</sup> In 2008, NSCC amended Addendum M to expand the NSCC Equity Options Service to include matching and confirmation for OTC bond option transactions and to rename the service the NSCC Equity Options and Bond Options Service.<sup>9</sup>

NSCC provided matching and confirmation services<sup>10</sup> to Deriv/SERV through its NSCC Equity Options and Bond Options Service pursuant to a service agreement between NSCC and Deriv/SERV. The NSCC Equity Options and Bond Options Service is limited to matching and confirmation of U.S. Equity Options or U.S. Bond Options.<sup>11</sup>

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Securities Exchange Act Release No. 51745 (May 26, 2005), 70 FR 33570 (June 8, 2005) (SR-NSCC-2005-04).

<sup>7</sup> Id. Deriv/SERV is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC") which is the corporate parent of NSCC.

<sup>8</sup> Addendum M, supra note 5.

<sup>9</sup> Securities Exchange Act Release No. 58300 (August 4, 2008), 73 FR 46956 (August 12, 2008) (SR-NSCC-2008-06).

<sup>10</sup> Matching and confirmation involves comparison of trade information for a trade from two parties to determine whether trade information from both parties is the same. If it is determined to be the same, a confirmation will be sent to both trade parties confirming that the trade information matches.

<sup>11</sup> Addendum M provides that "U.S. Equity Option" means an over-the-counter equity option for which either the buyer or the seller of the equity option is a U.S. person and the equity option is issued by a U.S. issuer and a "U.S. Bond Option" means an over-the-counter bond option for which either the buyer or the seller of

The Equity Options and Bond Options Service does not involve settlement and is not a guaranteed service of NSCC. NSCC has provided the service only to its affiliate Deriv/SERV as contemplated by Addendum M.<sup>12</sup>

Deriv/SERV operated the OTC Matching and Confirmation Service from 2004 until 2009. From 2009 to 2013, the OTC Matching and Confirmation Service was operated by Deriv/SERV through a joint venture owned by Deriv/SERV and Markit North America, Inc. and its affiliates (collectively, “Markit”), called MarkitSERV LLC (“MarkitSERV”). As part of the joint venture, Deriv/SERV contributed the OTC Matching and Confirmation Service to MarkitSERV and agreed to provide services to support the OTC Matching and Confirmation Service, including allowing the OTC Matching and Confirmation Service to operate on Deriv/SERV’s mainframe platform and providing certain support services relating to the platform. In 2013, Deriv/SERV sold its interests in MarkitSERV to Markit and entered into a support agreement pursuant to which, among other things, Deriv/SERV continued to allow the OTC Matching and Confirmation Service to operate off of Deriv/SERV’s mainframe platform and provide support services relating to the platform. In 2014, MarkitSERV began a process of moving the OTC Matching and Confirmation Service relating to equity options and bond options to its own mainframe platform which was completed by 2017. After

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the bond option is a U.S. person and the bond option is issued by a U.S. issuer. Addendum M, supra note 5.

<sup>12</sup> Id. Addendum M provides that NSCC “may provide to its affiliate DTCC Deriv/SERV LLC . . . a service through which U.S. Equity Option and U.S. Bond Option transactions and their associated cash flows are confirmed and matched.” Id.

MarkitSERV moved the OTC Matching and Confirmation Service relating to equity options and bond options to its own mainframe platform, Deriv/SERV ceased to provide support services relating to the OTC Matching and Confirmation Service with respect to equity options and bond options.

In 2010, Deriv/SERV began the Equity Derivative Cash Flow Matching Service (“Equity Cash Flow Matching Service”) which provided for matching payment information in OTC equity derivatives transactions. The Equity Cash Flow Matching Service was a separate service from the OTC Matching and Confirmation Service. Deriv/SERV discontinued the Equity Cash Flow Matching Service in April 2020.

Deriv/SERV used the Equity Options and Bond Options Service in connection with Deriv/SERV providing the OTC Matching and Confirmation Service and the Equity Cash Flow Matching Service. To the extent that the OTC Matching and Confirmation Service or the Equity Cash Flow Matching Service involved a transaction with U.S. Equity Options or U.S. Bond Options, NSCC would provide the matching and confirmation services to Deriv/SERV for that transaction pursuant to the Equity Options and Bond Options Service and service agreement between NSCC and Deriv/SERV.

Deriv/SERV no longer offers, operates or supports the OTC Matching and Confirmation Service or the Equity Cash Flow Matching Service and has no current plans to provide or support similar services relating to U.S. Equity Options or U.S. Bond Options. As a result, Deriv/SERV no longer utilizes the NSCC Equity Options and Bond Options Service.

Proposed Rule Change. NSCC has provided the NSCC Equity Options and Bond Options Service only to its affiliate, Deriv/SERV, and not to anyone else, as contemplated by Addendum M. Deriv/SERV no longer operates or supports the OTC Matching and Confirmation Service or the Equity Cash Flow Matching Service and does not utilize the NSCC Equity Options and Bond Options Service. Therefore, NSCC is proposing to discontinue the NSCC Equity Options and Bond Options Service and remove Addendum M from the Rules.

## 2. Statutory Basis

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>13</sup> NSCC believes that the proposed rule change is consistent with this provision because it would provide enhanced clarity and transparency for its members with respect to services offered by NSCC, by updating the Rules to remove a service that was provided only to Deriv/SERV and that is no longer utilized by Deriv/SERV, as described above. Therefore, by providing enhanced clarity and transparency in the Rules regarding the services provided by NSCC, NSCC believes the proposed rule change would promote the prompt and accurate clearance and settlement of securities transactions, consistent with the requirements of the Act, in particular Section 17A(b)(3)(F), cited above.

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

NSCC does not believe that the proposed rule change would have any impact on competition. The NSCC Equity Options and Bond Options Service is a service offering

provided by NSCC specifically to Deriv/SERV, and only to Deriv/SERV, in connection with Deriv/SERV providing and supporting the OTC Matching and Confirmation Service and the Equity Cash Flow Matching Service. Deriv/SERV no longer provides or supports the OTC Matching and Confirmation Service or the Equity Cash Flow Matching Service and is not expected to provide or support such services in the future. As such, Deriv/SERV does not utilize the NSCC Equity Options and Bond Options Service and is not likely to utilize the NSCC Equity Options and Bond Options Service in the future. Therefore, the proposed rule change should not have any impact on competition or on NSCC members other than to clarify the services that NSCC provides under the Rules.

(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. NSCC will notify the Commission of any written comments received by NSCC.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>14</sup> and paragraph (f) of Rule 19b-4 thereunder.<sup>15</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.

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<sup>14</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>15</sup> 17 CFR 240.19b-4(f).

#### IV. Solicitation of Comments

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

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2020-013 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-2020-013. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of NSCC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NSCC-2020-013 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>16</sup>

**J. Matthew DeLesDernier,**

*Assistant Secretary.*

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