

recognizes the unique nature of the fund industry in treating distributions with respect to a common group of shareholders as a single distribution for purposes of the fee tiers.

The Commission understands that, in setting the reimbursement rates in Rule 451.90, the Exchange balances the competing interests of issuers who must pay for distributions of shareholder reports and brokers who need assurance of adequate reimbursement for making such distributions on their behalf.<sup>52</sup> The Commission notes that all commenters broadly supported NYSE's proposal.<sup>53</sup> As discussed above, two commenters expressed some concern with assessing the details of the NYSE's proposal before a final decision is made on proposed Rule 30e-3. However, given that the Exchange's rule is applicable to the "distribution of investment company shareholder reports pursuant to any 'notice and access' rules adopted by the [Commission] in relation to such distributions" as well as the functional similarities between notice and access processing for proxy and investment company report distributions,<sup>54</sup> the Commission believes, for the reasons discussed above, that it is appropriate at this time to approve substantially similar reimbursement rates, with the proposed amendments described herein, which should establish a reasonable and practical reimbursement structure, if notice and access distribution of investment company shareholder reports is authorized.

For the reasons discussed above, the Commission believes that the proposed rule change is consistent with the Exchange Act.

<sup>52</sup> The Commission notes that the Exchange and certain commenters suggested that FINRA may be better positioned than the Exchange to perform the regulatory role of setting the reimbursement rates for mutual fund report distributions. See Notice, 81 FR at 56718; see also ICI Letter; Ariel Letter; T. Rowe Letter; MFS Letter; Invesco Letter; Dimensional Letter; Columbia Letter. The issue of whether FINRA would be better positioned than the Exchange to perform this regulatory role is outside the scope of the Commission's consideration of whether to approve the Exchange's proposed rule change. See Section 19(b)(2)(C) of the Exchange Act ("The Commission shall approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of this title and the rules and regulations applicable to such organization.").

<sup>53</sup> See *supra* note 4.

<sup>54</sup> See Broadridge Letter (stating that processing work for investment company shareholder report distribution using notice and access is functionally similar in many respects to proxy report distribution through notice and access, although many of the underlying systems and production operations would be different).

## V. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Exchange Act<sup>55</sup> that the proposed rule change (SR–NYSE–2016–55) be, and *hereby is, approved*.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>56</sup>

**Brent J. Fields,**

*Secretary.*

[FR Doc. 2016–28311 Filed 11–23–16; 8:45 am]

**BILLING CODE 8011–01–P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–79351; File No. SR–DTC–2016–008]

### Self-Regulatory Organizations; The Depository Trust Company; Notice of Designation of a Longer Period for Commission Action on Proposed Rule Change Relating to Processing of Transactions in Money Market Instruments

November 18, 2016.

On September 23, 2016, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR–DTC–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> to establish a change in the processing of transactions in money market instruments.<sup>3</sup> The proposed rule change was published for comment in the **Federal Register** on October 11, 2016.<sup>4</sup> To date, the Commission has not received any comments on the proposed rule change.

Section 19(b)(2) of the Act<sup>5</sup> provides that, within 45 days of the publication

<sup>55</sup> 15 U.S.C. 78f(b)(2).

<sup>56</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> On September 23, 2016, DTC also filed this proposed rule change as an advance notice (SR–DTC–2016–802) with the Commission pursuant to Section 806(e)(1) of the Dodd-Frank Wall Street Reform and Consumer Protection Act entitled the Payment, Clearing, and Settlement Supervision Act of 2010, 12 U.S.C. 5465(e)(1), and Rule 19b–4(n)(1)(i) of the Act, 17 CFR 240.19b–4(n)(1)(i). Notice of filing of and extension of the review period of the advance notice was published for comment in the **Federal Register** on November 9, 2016. Securities Exchange Act Release No. 79224 (November 3, 2016), 81 FR 78884 (November 9, 2016) (SR–DTC–2016–802). The Commission shall have until January 21, 2017 to object or not object to the advance notice.

<sup>4</sup> See Securities Exchange Act Release No. 79046 (October 5, 2016), 81 FR 70200 (October 11, 2016) (SR–DTC–2016–008).

<sup>5</sup> 15 U.S.C. 78s(b)(2).

of notice of the filing of a proposed rule change, or within such longer period up to 90 days as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding, or as to which the self-regulatory organization consents, the Commission shall either approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether the proposed rule change should be disapproved. The 45th day after publication of the notice for this proposed rule change is November 25, 2016. The Commission is extending this 45-day time period.

In order to provide the Commission with sufficient time to consider the proposed rule change, the Commission finds that it is appropriate to designate a longer period within which to take action on the proposed rule change. Accordingly, the Commission, pursuant to Section 19(b)(2) of the Act,<sup>6</sup> designates January 9, 2017 as the date by which the Commission shall either approve, disapprove, or institute proceedings to determine whether to disapprove the proposed rule change (File No. SR–DTC–2016–008).

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>7</sup>

**Brent J. Fields,**

*Secretary.*

[FR Doc. 2016–28307 Filed 11–23–16; 8:45 am]

**BILLING CODE 8011–01–P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–79354; File No. SR–ISEMercury–2016–21]

### Self-Regulatory Organizations; ISE Mercury, LLC; Notice of Filing of Proposed Rule Change To Reduce the Response Times in the Block Mechanism, Facilitation Mechanism, Solicited Order Mechanism and Price Improvement Mechanism

November 18, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b–4 thereunder,<sup>2</sup> notice is hereby given that on November 8, 2016, ISE Mercury, LLC (the "Exchange" or the "ISE Mercury") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have

<sup>6</sup> *Id.*

<sup>7</sup> 17 CFR 200.30–3(a)(31).

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

<sup>2</sup> 17 CFR 240.19b–4.

been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Rules 716 (Block Trades) and 723 (Price Improvement Mechanism for Crossing Transactions) to reduce the response times in the Block Order Mechanism, Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism. The text of the proposed rule change is available on the Exchange's Web site at <http://www.ise.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 these 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 aspects of such statements.

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

##### **1. Purpose**

The purpose of the proposed rule change is to amend the time period allowed for member submission of responses in the Block Order Mechanism, Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism ("PIM") from 500 milliseconds ( $\frac{1}{2}$  of one second) to a time period designated by the Exchange of no less than 100 milliseconds ( $\frac{1}{10}$  of one second) and no more than 1 second.<sup>3</sup>

Rule 716 contains the requirements applicable to the execution of orders using the Block Order Mechanism,

Facilitation Mechanism, and Solicited Order Mechanism. The Block Order Mechanism allows members to obtain liquidity for the execution of a block-size order,<sup>4</sup> and the Facilitation and Solicited Order Mechanisms allow members to enter cross transactions seeking price improvement.<sup>5</sup> Rule 723 contains the requirements applicable to the execution of orders using the PIM. The PIM allows members to enter cross transactions of any size. The Facilitation, Solicited Order Mechanisms and PIM allow for members to designate certain customer orders for price improvement and submit such orders into one of the mechanisms with a matching contra order. Once the order is submitted, the Exchange commences an auction by broadcasting a message to all members that includes the series, price, size and side of the market.<sup>6</sup> Further, responses within the PIM (*i.e.*, Improvement Orders), are also broadcast to market participants during the auction. Orders entered into any of these mechanisms currently are exposed to all market participants for 500 milliseconds, giving them an opportunity to enter additional trading interest before the orders are automatically executed. Under the proposal, the Exchange would determine an appropriate exposure period for each of the four auction mechanisms that is no less than 100 milliseconds and no more than 1 second, consistent with exposure periods permitted on other exchanges such as NASDAQ BX ("BX") and NASDAQ PHLX ("Phlx").<sup>7</sup> When approving the previous change to exposure periods in these mechanisms on its affiliated market, ISE, the Securities and Exchange Commission concluded that reducing these time periods was consistent with the Securities Exchange Act of 1934 (the "Act").<sup>8</sup>

The Exchange is not proposing any change to the requirement in Rule 717(d) and (e) that requires an Electronic Access Member ("EAM") to

<sup>4</sup> Block-size orders are orders for 50 contracts or more. See Rule 716(a).

<sup>5</sup> Only block-size orders can be entered into the Facilitation Mechanism, whereas only orders for 500 contracts or more can be entered into the Solicited Order Mechanism. See Rule 716(d) and (e).

<sup>6</sup> Members may choose to hide the size, side, and price when entering orders into the Block Order Mechanism.

<sup>7</sup> See Securities Exchange Act Release No. 76301 (October 29, 2015), 80 FR 68347 (November 4, 2015) (SR-BX-2015-032) and Securities Exchange Act Release No. 77557 (April 7, 2016), 81 FR 21935 (April 13, 2016) (SR-PHLX-2016-40).

<sup>8</sup> See Exchange Act Release No. 68849 (February 6, 2013), 78 FR 9973 (February 12, 2013) (SR-ISE-2012-100).

expose its customer's order on the book for at least one second before either executing such agency order as principal or against orders solicited from members and non-members, unless the EAM submits the agency order to the Facilitation Mechanism, Solicited Order Mechanism, or PIM.<sup>9</sup> The Exchange believes this exception for the Facilitation Mechanism, Solicited Order Mechanism and PIM is appropriate because the customer order is guaranteed an execution at the National Best Bid/Offer ("NBBO") or a better price through the Facilitation Mechanism, Solicited Order Mechanism and PIM. Additionally, members are informed about the agency order starting the auction through receipt of the broadcast. Members have the opportunity to compete for participation in the execution of the customer order by responding to the broadcast with their best priced responses.

With respect to the Facilitation Mechanism, Solicited Order Mechanism, and PIM, the Exchange believes the proposed rule change could provide more customer orders an opportunity for price improvement because it will reduce the market risk for all members executing trades in these mechanisms. Members that submit orders into such mechanisms to initiate an auction ("Initiating Members") are required to guarantee an execution at the NBBO or a better price, and are subject to market risk while the order is exposed in one of the mechanisms to other members. While other members are also subject to market risk, the Initiating Member is most exposed because the market can move against them during the auction period and they have guaranteed the customer an execution at the NBBO or better based on the market prices prior to the commencement of the auction. In today's fast-paced markets, big price changes can occur in 100 milliseconds or less, leaving the Initiating Members vulnerable to trading losses due to their choice to seek price improvement for their customer. The Initiating Member acts in a critical role in the price improvement process and their willingness to guarantee the customer an execution at the NBBO or a better price is keystone to the customer order gaining the opportunity for price improvement. Therefore, limiting Initiating Members' market risk by reducing the exposure time in the mechanisms should increase the likelihood that an Initiating Member

<sup>9</sup> Since EAMs submitting orders into the Block Mechanism do not have the contra order, Rule 717(d) and (e) does not apply.

<sup>3</sup> While the Exchange intends to decrease the time period allowed for responses, the proposed rule would also allow the Exchange to increase this time period up to 1 second, which is the time period previously allowed for the submission of responses on its affiliated market, the International Securities Exchange, LLC ("ISE"). See Securities Exchange Act Release No. 58224 (July 25, 2008), 73 FR 44303 (July 30, 2008) (SR-ISE-2007-94).

would seek price improvement for its customer by entering such orders into one of the mechanisms.

Additionally, the Exchange does not believe that requiring the auction to run for 500 milliseconds is necessary in today's market where, generally, members' systems have the capability to respond within 100 milliseconds or faster. As such, reducing the response time in the Block Order Mechanism is appropriate as members no longer need 500 milliseconds to respond to the auction. Reducing the auction time for the Block Order Mechanism from 500 milliseconds to as low as 100 milliseconds will allow members the opportunity to seek out liquidity in an expedient manner that is consistent with system capabilities.

Furthermore, although the Exchange currently plans to reduce the time period allowed for the submission of auction responses to 100 milliseconds, the Exchange believes that it is appropriate to provide the flexibility to choose a response period of up to 1 second as this is consistent with the rules of other options markets.<sup>10</sup>

The Exchange's members operate electronic systems that enable them to react and respond to orders in a meaningful way in fractions of a second. The Exchange anticipates that its members will continue to compete within the proposed auction duration designated by the Exchange. In particular, the Exchange believes that the proposed auction response times—which will be no less than 100 milliseconds and no more than 1 second—will continue to provide members with sufficient time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk.

Reducing the duration of the auctions from 500 milliseconds to as low as 100 milliseconds will benefit members trading in the mechanisms. It is in these members' best interest to minimize the auction time while continuing to allow members adequate time to electronically respond. Both the order being exposed and the members' responses are subject to market risk during the auction. While a limited number of members wait to respond until later in the auction, presumably to minimize their market risk, in more than 94% of executions occurring in the mechanisms members respond within the first 100 milliseconds. The Exchange believes that an auction time as low as 100

milliseconds will continue to provide market participants with sufficient time to respond, compete, and provide price improvement for orders and will provide investors and other market participants with more timely executions, thereby reducing their market risk.<sup>11</sup>

To substantiate that members can receive, process, and communicate a response to an auction broadcast within 100 milliseconds, the Exchange surveyed all International Securities Exchange, LLC ("ISE") and ISE Gemini, LLC ("ISE Gemini") members that responded to an auction in the period beginning July 1, 2015 and ending January 15, 2016.<sup>12</sup> The Exchange received responses from all of the 21 ISE and ISE Gemini members surveyed, and each member confirmed that they can receive, process, and communicate a response back to the Exchange within 100 milliseconds. The Exchange believes that the survey results apply equally to ISE Mercury as all current ISE Mercury members are also members of the ISE and/or ISE Gemini, and the same functionality for responses offered on ISE Mercury is also offered on these affiliated exchanges. In addition, the Exchange notes that the ISE Mercury trading system has comparable latency to both ISE and ISE Gemini. As a result, the Exchange does not believe that ISE Mercury members will have any difficulty in responding to an auction broadcast within the 100 milliseconds permitted under this proposed rule change.

Also in consideration of this proposed rule change, the Exchange reviewed all executions occurring in the mechanisms by its Members from March 28, 2016–April 25, 2016. This review of executions in the mechanisms indicates that approximately 98% of responses that resulted in price improving executions at the conclusion of an auction were submitted within 500 milliseconds. Approximately 94% of responses that resulted in price improving executions at the conclusion of an auction were submitted within 100 milliseconds of the initial order, and 83% were submitted within 50 milliseconds of the initial order.

<sup>11</sup> With Block Orders, the member enters one side of the order in an effort to find contra-side liquidity. While this order is exposed, the member is exposed to market risk. Therefore, reducing the exposure time will reduce the market risk for Block Orders just as it will reduce the market risk with respect to orders entered into the Facilitation Mechanism, Solicited Order Mechanism, and PIM.

<sup>12</sup> ISE Mercury launched on February 16, 2016 after the survey had been completed. ISE and ISE Gemini are affiliates of ISE Mercury that also offer the auction functionality described in this filing.

Accordingly, the Exchange believes that an auction time as low as 100 milliseconds will continue to provide members with sufficient time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk. Moreover, Supplementary Material .04 to Rule 723 provides that the PIM will not run simultaneously with or overlap another PIM in the same series. As a result, members may be unable to initiate PIMs on behalf of their customers. Reducing the auction time to as low as 100 milliseconds will decrease the likelihood that an auction is underway when a customer order is received. Accordingly, the Exchange believes it is likely that the number of PIM transactions will increase, thereby providing customers a greater opportunity to benefit from price improvement.

The Exchange believes that the information outlined above regarding price improving transactions in the mechanisms and the feedback provided by members provides substantial support for its assertion that reducing the auction from 500 milliseconds to as low as 100 milliseconds will continue to provide members with sufficient time to ensure competition for orders entered into the mechanisms, and could provide customer orders with additional opportunities for price improvement.

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it has the necessary systems capacity to handle the potential additional traffic associated with the additional transactions that may occur with the implementation of the proposed reduction in the auction duration to no less than 100 milliseconds. Additionally, the Exchange represents that its systems will be able to sufficiently maintain an audit trail for order and trade information with the reduction in the auction duration. Further, although the Exchange and its members are fully capable of handling a response time of 100 milliseconds, the Exchange proposes to reduce the auction time over a period of weeks ending at 100 milliseconds. This will ensure a smooth implementation of the faster timers and that the Exchange's and its members' systems are working properly given the faster response times.

Upon effectiveness of the proposal, and at least six weeks prior to implementation of the proposed rule change, the Exchange will issue a circular to members, informing them of

<sup>10</sup> See note 7 supra.

the implementation date of the reduction of the auction from 500 milliseconds to the auction time designated by the Exchange to allow members the opportunity to perform systems changes. This will give members an opportunity to make any necessary modifications to coincide with the implementation date. The Exchange also represents that it will issue a circular at least four weeks prior to any future changes, as permitted by its rules, to the auction time.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act, and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>13</sup> In particular, the proposal is consistent with Section 6(b)(5) of the Act,<sup>14</sup> because it is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

In particular, the proposed rule change will provide investors with more timely execution of their options orders, while ensuring that there is an adequate exposure of orders in the mechanisms. Additionally, the proposed change will allow more investors the opportunity to receive price improvement through the mechanisms, and will reduce market risk for members using the mechanisms. Finally, as mentioned above, other exchanges such as BX and Phlx, have already amended their rules to permit response times consistent with those proposed here—*i.e.*, no less than 100 milliseconds and no more than 1 second.<sup>15</sup> As such, the Exchange believes the proposed rule change would help perfect the mechanism for a free and open national market system, and generally help protect investors' and the public's interest.

The Exchange believes the proposed rule change is not unfairly discriminatory because the auction duration would be the same for all members. All members in the mechanisms have today, and will continue to have, an equal opportunity to receive the broadcast and respond with their best prices during the auction. Additionally, the Exchange believes the reduction in the auction duration reduces the market risk for all

members. The reduction in time period reduces the market risk for the Initiating Member as well as any members providing orders in response to a broadcast. Moreover, based on the feedback the Exchange received from its members, the Exchange believes that a reduction in the auction period to a low of 100 milliseconds would not impair members' ability to compete in the mechanisms. The Exchange believes these results support the assertion that a reduction in the auction duration would not be unfairly discriminatory and would benefit investors.

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

The Exchange believes the proposal is consistent with Section 6(b)(8) of the Act<sup>16</sup> in that it does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not designed to address any aspect of competition, but instead would continue to provide market participants with sufficient time to respond, compete, and provide price improvement for orders in the Exchange's auction mechanisms. The proposed rule also provides investors and other market participants with more timely executions, thereby reducing their market risk. As proposed, the rule does not impose an undue burden on members because they are all currently capable of responding to these mechanisms in under 100 milliseconds. Finally, the proposed rule change offers the same exposure period to all members and would not impose a competitive burden on any particular participant.

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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

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

Within 45 days of the publication date 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](mailto:rule-comments@sec.gov). Please include File Number SR-ISEMercury-2016-21 on the subject line.

### *Paper Comments*

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090. All submissions should refer to File Number SR-ISEMercury-2016-21. 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 Web site (<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 Web site 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ISEMercury-2016-21 and should be

<sup>13</sup> 15 U.S.C. 78f(b).

<sup>14</sup> 15 U.S.C. 78f(b)(5).

<sup>15</sup> See note 7 supra.

<sup>16</sup> 15 U.S.C. 78f(b)(8).

submitted on or before December 16, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>17</sup>

**Brent J. Fields,**

*Secretary.*

[FR Doc. 2016-28310 Filed 11-23-16; 8:45 am]

BILLING CODE 8011-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79356; File No. SR-NSCC-2016-007]

### Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change To Accommodate Shorter Standard Settlement Cycle and Make Other Changes

November 18, 2016.

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 November 7, 2016, 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 amendments to NSCC’s Rules & Procedures (“Rules”)<sup>3</sup> in order to ensure that the Rules are consistent with the anticipated industry-wide move to a shorter standard settlement cycle for certain securities<sup>4</sup> from the third business day after the trade date (“T+3”) to the second business day after the trade date (“T+2”), as described below.

The proposed rule change would not become effective until NSCC has submitted a subsequent proposed rule change under Rule 19b-4.<sup>5</sup> Therefore, NSCC would not implement this version of the Rules until an effective date is established by the subsequent proposed rule change.<sup>6</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

###### (i) Background

The standard settlement cycle has not changed since 1993, when the Commission adopted the current version of Rule 15c6-1(a) under the Securities Exchange Act of 1934, as amended (the “Act”), which (subject to certain exceptions) prohibits any broker-dealer from entering into a contract for the purchase or sale of a security that provides for payment and delivery later than three business days after the trade date, unless otherwise expressly agreed to by the parties at the time of the transaction.<sup>7</sup>

In an effort to reduce counterparty risk, decrease clearing capital requirements, reduce liquidity demands and harmonize the settlement cycle globally, the financial services industry has been working on shortening the standard settlement cycle from T+3 to T+2. In connection therewith, the Commission has proposed a rule change to shorten the standard settlement cycle from T+3 to T+2.<sup>8</sup>

A number of provisions in the Rules currently define “regular way” settlement as occurring on T+3 and, as such, would need to be amended in

connection with shortening the standard settlement cycle to T+2. Further, certain timeframes or cutoff times in the Rules key off the current settlement date of T+3, either expressly or indirectly. In such cases, these timeframes and cutoff times would also need to be amended in connection with the Shortened Settlement Cycle. Therefore, to facilitate the anticipated industry-wide move to the Shortened Settlement Cycle, NSCC proposes to make certain amendments to the Rules.

###### (ii) Proposed Changes to the Rules

The primary purpose of the proposed rule change is to modify the Rules to accommodate the anticipated industry-wide move to a two-day settlement cycle.<sup>9</sup> While the core functions of NSCC will continue to operate in the same way in the Shortened Settlement Cycle, NSCC has determined that the move to T+2 would necessitate certain amendments to the Rules because currently the Rules are designed to accommodate a T+3 settlement cycle. In particular, NSCC has identified and is proposing to change (i) rules that have timeframes and/or cutoff times that are tied to the standard settlement cycle and (ii) rules affected by process changes relating to the Shortened Settlement Cycle. In addition, NSCC is proposing to make a number of technical changes and corrections to the Rules.

##### A. Rules Tied to the Standard Settlement Cycle

Certain provisions in the Rules are tied to the standard settlement cycle because they reference timeframes and/or cutoff times that are based on the timing of settlement. These are provisions that (i) directly track the timeframe and/or Settlement Date of the standard settlement cycle, (ii) address non-standard settlement cycles or (iii) provide for timeframes and/or cutoff times that are connected to or are affected by the timing of the standard settlement cycle, and they would need to be changed in order to accommodate the Shortened Settlement Cycle. As an example, the Rules contain a number of provisions that refer to “three days” or “T+3” as the timeframe and Settlement Date of the standard settlement cycle. These provisions would need to be updated to reflect “two days” or “T+2” to be in conformance with the Shortened Settlement Cycle. Similarly, a number of provisions in the Rules refer to timeframes and Settlement Dates that are intended to be shorter or earlier, as applicable, than the timeframe and/or Settlement Date of the standard

<sup>17</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> 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).

<sup>4</sup> The financial services industry, in coordination with its regulators, is planning to shorten the standard settlement cycle for equities, corporate and municipal bonds, unit investment trusts and financial instruments comprised of the foregoing products traded on the secondary market from T+3 to T+2 (the “Shortened Settlement Cycle”). See Securities Exchange Act Release No. 78962 (September 28, 2016), 81 FR 69240 (October 5, 2016) (S7-22-16) (Amendment to Securities Transaction Settlement Cycle).

<sup>5</sup> 17 CFR 240.19b-4.

<sup>6</sup> NSCC will post a version of the relevant sections of the Rules reflecting the changes as they would appear upon the effectiveness of the subsequent proposed rule change mentioned above and will include a note on the cover page of the Rules to advise Members of these changes.

<sup>7</sup> 17 CFR 240.15c6-1.

<sup>8</sup> *Supra* note 4.

<sup>9</sup> *Id.*