



NATIONAL
SECURITIES
CLEARING
CORPORATION

RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

Bold and underlined text indicates proposed added language.

~~Bold and strikethrough text~~ indicates proposed deleted language.

[Changes to this Procedure VII, as amended by File No. SR-NSCC-2019-002, are available at dtcc.com/~media/Files/Downloads/legal/rule-filings/2019/NSCC/SR-NSCC-2019-002.pdf. These changes have been approved by the Securities and Exchange Commission but have not yet been implemented. By September 26, 2019, these changes will be implemented and this legend will automatically be removed from this Procedure VII.]

PROCEDURE VII. CNS ACCOUNTING OPERATION

A. Introduction

CNS is an on-going accounting system which nets today's Settling Trades with yesterday's Closing Positions, producing new short or long positions per security issue for each Member. The Corporation is always the contra side for all positions. The positions are then passed against the Member's Designated Depository (as defined in Section C of this Procedure, below) positions and available securities are allocated by book-entry. This allocation of securities is accomplished through **an evening a night** cycle followed by a day cycle. Positions which remain open after the **evening night** cycle may be changed as a result of trades accepted for settlement that day. Members may influence the receipt and delivery of their securities through the use of Exemptions (for deliveries) or Priorities (for receipts).

C. Receipt and Delivery of Securities

3. **Evening Night** Cycle

The results of the **evening night** allocation are recorded on the CNS Settlement Activity Statement distributed the following morning. All security movements in Designated Depositories are made on a "free" basis. Money settlement associated with such security movements is accounted for by the Corporation as a separate function. The Current Market Value of each entry is shown on the Settlement Activity Statement for informational purposes.

4. Day Cycle

Positions which remain open after the **evening night** allocation, or become open as a result of subsequent activity, are recycled on the following day. As additional securities are made available in Members' Designated Depository accounts,

additional receipts and deliveries are made against long and short positions. **Subject to the differences in the allocation algorithm for receipts from CNS (see subsection E of this Procedure VII)**, the daytime recycle functions essentially the same as the **evening night** allocation except that the process is continual.

E. Influencing Receipts from CNS

After securities are received by the Corporation from Members with short positions, they are allocated to other Members which have long positions. The allocation of these securities is **designed governed by an algorithm which changes daily** so as not to benefit any one Member. Members may change their relative rank **within this algorithm** by submitting Priority Requests. The submission of a Buy-In Intent will also affect the priority of a Member's long position in that particular security.

1. Standing Priority Request

A Member may enter a Standing Priority Request which moves its long positions in all securities to a higher rank in the allocation formula every day and remains in effect until canceled or changed by the Member in writing.

A Member may enter a Standing Priority Request for the **evening night** cycle only, the day cycle only, or both the **evening night** and day cycles in respect of its general account or any sub-account.

2. Priority Overrides

A Member may override a Standing Priority Request which it has previously submitted, or obtain priority when it has not submitted a Standing Priority Request by submitting a Priority Override. Each Priority Override changes the Member's relative rank in the allocation algorithm for its long position in one security only. The Priority Override remains in effect for one day.

The Member may submit a Priority Override for the specified security for the **evening night** cycle only, the day cycle only, or for both the **evening night** and day cycles.

3. Buy-In Intent Notices

A Member which submits a Buy-In Intent in accordance with the provisions of subsection J of this **Section Procedure VII** is assigned to a higher relative rank in the allocation algorithm for the quantity of securities specified on the Buy-In Intent than those Members which have requested high priority through the use of a Standing Priority Request or Priority Override.

4. Allocation Algorithm

The algorithm which governs the allocation of long positions is based on priority groups in descending order, **and, for the day cycle only,** age of position within a priority group and random numbers within age groups.

Priority groups include the following:

- (a) long positions in a CNS Reorganization Sub-Account established pursuant to paragraph H.4. of this **Section Procedure VII** ~~of these Procedures~~;
- (b) long positions against which Buy-In Intent notices are due to expire that day but which were not filled the previous day;
- (c) long positions against which Buy-In Intent notices are due to expire the following day;
- (d) (i) long positions in a receiving ID Net Subscriber's agency account established at a Qualified Securities Depository, and (ii) long positions against the component securities of index receipts;
- (e) in descending sequence, priority levels as specified by Standing Priority Requests and as modified by Priority Overrides.

For the day cycle only, When more than one long position in a given security exists within the same priority group, the "oldest" position is allocated first. Age is defined as the number of consecutive days during which the position has been long, irrespective of quantity.

For the day cycle only, When more than one long position in a given security exists within the same priority group all of which have been long the same number of consecutive days, the allocation rank is determined by a computer generated random number. Random numbers, which change daily, are computed so that each Member's random number is different for each security.

The allocation algorithm for the **evening night** and day delivery cycles is computed separately to allow for **different allocation factors used for night and day cycles as well as** Standing Priority Requests and Priority Overrides which have specified different levels of priority for **evening night** and day cycles.

5. Fully-Paid-For Account

(Procedures for Movements to the Long Free Account)

The Corporation's processing day is divided into two parts. It begins with **an evening a night** cycle on the evening preceding the settlement day for which the

work is being processed and is followed by a day cycle which ends on the settlement day for which the work is processed. If a Member with a long position and/or a position due for settlement on the next settlement day, in anticipation of receiving securities from the Corporation (other than municipal securities, as that term is defined by the Securities Exchange Act of 1934, as amended), as a result of the allocation process during the **evening night** or day cycle for that settlement day, instructs that securities within its possession or control (other than municipal securities) be delivered on the next day and is subsequently not allocated the securities during the **evening night** or following day cycle, the Member may, in order to meet the “customer segregation” requirements of SEC Rule 15c3-3, instruct the Corporation, during the day cycle for that settlement day by the time specified by the Corporation, to transfer the position(s) which has not been allocated to a special CNS sub-account (the “Long Free Account”). The Corporation will then debit the Member’s settlement account for the value of the position in the Long Free Account. The Long Free Account will be guaranteed by the Corporation and will be marked daily.

H. Miscellaneous CNS Activity

5. ID Net Service

Pursuant to Rule 65 and Procedure XVI, ID Net Subscribers may enter into transactions eligible for the ID Net Service, and all such transactions are recorded on the Miscellaneous Activity Report. All removals of such transactions from the ID Net Service occurring in either day or **evening night** cycle are also recorded on the Miscellaneous Activity Report.

J. Recording of CNS Buy-Ins

1. Equity Securities and Corporate Debt Securities

Defined Terms

For the purpose of this Section J,

The day the Buy-In Intent is transmitted is referred to as N; and N+1 and N+2 refer to the succeeding business days. As noted in Section A of this Procedure VII, each day commences in the evening and includes **an evening a night** allocation of securities and a day allocation of securities.

CNS Allocation Priority and CNS Retransmittal Notices

Original Buy-In Intent (expiring on N+2):

A Buy-In Position on an Original Buy-In Intent is given high priority for CNS allocation from N+1 through the daytime allocation on N+2. If a Buyin Position remains unfilled after the **evening night** allocation on N+1, the Corporation issues CNS Retransmittal Notices on the morning of N+1 to a sufficient number of Members with Short Positions. Such CNS Retransmittal Notices shall specify the originator and the remaining portion of the Buy-In Position not yet received and demand delivery from each such Member of a specified quantity of securities. CNS Retransmittal Notices are issued in an aggregate quantity at least equal to the Buy-in Position. In no case will the Buy-In Liability of a Member exceed the Buyin Position or the total Short Position of the Member. If several Members have Short Positions with the same age, all such Members are issued CNS Retransmittal Notices, even if the total of their Short Positions exceeds the Buy-in Position.

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ADDENDUM G

FULLY-PAID-FOR ACCOUNT

I. MOVEMENT OF SECURITIES INTO THE FULLY-PAID-FOR ACCOUNT

The expansion of the Fully-Paid-For application will be of benefit to Members making deliveries during DTC's evening and daytime processing on settlement date by permitting deliveries in anticipation of CNS allocation.

On the morning of settlement date and during the day cycle on settlement date, DTC will indicate to the Member what securities have been delivered out via DTC. Similarly the CNS Settlement Activity Report will be made available indicating what has been allocated in the **evening night allocation** cycle, and information is also provided regarding allocations made in the day cycle.
