

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-90092; File No. SR-NSCC-2020-017)

October 5, 2020

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Enhance the Insurance and Retirement Processing Services to Provide for a New Centralized Repository and Transactional Platform Called “Insurance Information Exchange” and Make Certain Clarification Changes to the NSCC Rules & Procedures.

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 September 28, 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 Act³ and subparagraphs (f)(2)⁴ and (f)(4)⁵ of Rule 19b-4 thereunder. 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 would amend NSCC’s Rules & Procedures (“Rules”)⁶ to enhance existing Insurance and Retirement Processing Services (“I&RS”) to (i)

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(2).

⁵ 17 CFR 240.19b-4(f)(4).

⁶ Capitalized terms not defined herein are defined in the Rules, available at https://www.dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf.

provide for a new centralized repository and transactional platform called “Insurance Information Exchange” (“IIEX”) for transmission of data relating to IPS Eligible Products (“I&RS Data”)⁷ and (ii) update certain defined terms and the name of I&RS services in the Rules and make certain other clarification changes.

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 provide a centralized repository and transactional platform to transmit and receive data relating to I&RS Data. NSCC is also proposing to update certain defined terms and the name of the I&RS services in the Rules to reflect conventional use of such terms and make certain other clarification changes.

(i) Background

IIEX

⁷ An “IPS Eligible Product” is currently defined in the Rules and includes such insurance products, retirement or other benefit plans, or programs that are identified by NSCC as eligible for processing through its I&RS. See Rule 1, supra note 6.

NSCC is proposing to provide I&RS Members (as defined below) and their service providers with a centralized data repository to transmit and receive I&RS Data. Such I&RS Members would include (i) insurance companies that are Insurance Carrier/Retirement Services Members (“Carriers”); and (ii) Carriers’ intermediaries, such as broker-dealers, banks and insurance agencies, that are Members, Mutual Fund/Insurance Services Members and Data Services Only Members that distribute participating Carriers’ insurance products (collectively, “Distributors,” and, together with “Carriers,” collectively referred to herein as “I&RS Members”). Some I&RS Members use third-party service providers to send or receive I&RS Data on their behalf. Such third-party service providers are not typically I&RS Members. I&RS Members authorize NSCC to send I&RS Data to the service providers or receive I&RS Data from the service providers on the I&RS Members’ behalf.

I&RS provides for transmission of I&RS Data, including annuity and life insurance policy applications and premiums, licensing and appointments, commission payments, reporting of client positions and valuations, asset pricing, financial activity reporting and annuity customer account transfers.⁸ I&RS also provides settlement of post-issue money/funding activities between Carriers and Distributors as well as between Carriers. The aim of these services is to automate and provide seamless end-to-end communication between Carriers, Distributors and their service providers for the sale,

⁸ The Rules require NSCC to maintain a list of insurance products and retirement or other benefit plans or programs which may be the subject of orders processed through I&RS and may from time to time add IPS Eligible Products to such list or remove IPS Eligible Products therefrom. An IPS Eligible Product must have been assigned a CUSIP number. Section 1(d) of Rule 3, supra note 6.

processing and money settlement of insurance products nationwide. NSCC does not act as a central counterparty with respect to I&RS services and I&RS services are not guaranteed by NSCC.

Current processing of I&RS Data through I&RS consists of large batch files transmitted and received by I&RS Members and their service providers through I&RS. I&RS acts as a pass through receiving the batch files from I&RS Members and sending them to their counterparts. While effective and efficient, the sheer volume of records processed daily can make it challenging for I&RS Members to pinpoint specific information needed. For example, using Positions & Valuations (“POV”), Carriers send individual and group annuity, life insurance long-term care and retirement income/immediate annuities contract details on a daily, weekly, monthly or other periodic basis to Distributors, giving the Distributors a current snapshot of their entire book of business. Often, depending on the life cycle of a contract or the purpose for the POV data, Distributors will need only a subset of the I&RS Data provided through I&RS by the Carriers.

At the request of and in consultation with industry participants, NSCC developed IIEX, a data repository, that would provide for a centralized collection of I&RS Data, which I&RS Members and their service providers could access and query to gather meaningful information. The data in the IIEX repository would be derived from I&RS Data that is currently being sent by batch files. I&RS Members and their service providers would be able to view and retrieve all or a subset of the information. In IIEX, I&RS will continue to act as a pass through for I&RS Data but will also start storing the I&RS Data in a data repository and allow I&RS Members to transmit, view and retrieve

I&RS Data using a user interface and allow I&RS Members and their service providers to transmit, view and retrieve I&RS Data using Application Programming Interfaces (“APIs) specifically for use with IIEX.⁹ IIEX would be an addition to existing services, its use would be voluntary and existing services for Members or their service providers would not be affected by the implementation of IIEX.

I&RS Members that subscribe to IIEX could access IIEX using their same connections that they currently utilize to connect to I&RS or download an API and access IIEX through the API. Service providers that are authorized by I&RS Members to receive data will have access to IIEX using APIs. The APIs could be specifically tailored to help I&RS Members and service providers to make certain types of queries and for different uses.

Currently, each I&RS Member indicates which other I&RS Members and service providers should receive the I&RS Data relating to that I&RS Member and also the type of I&RS Data that should be sent to other I&RS Members and service providers. This process would not change as a result of IIEX and IIEX would not change which parties receive or have access to I&RS Data. As with existing I&RS services, under IIEX only I&RS Members or their designated service providers would have access to an I&RS Member’s I&RS Data and IIEX would contain secure entitlements that would allow only I&RS Members and their service providers to view and download only that I&RS Data

⁹ An API is a code that allows two software programs to communicate. APIs for IIEX will allow software programs used by I&RS Member and their service providers to communicate with the IIEX repository to transmit, view and retrieve I&RS Data.

from IIEX that they are entitled to receive as indicated by the I&RS Member whose I&RS Data they are receiving.

Changes to the Name of I&RS and Certain Defined Terms

NSCC is also proposing to update certain defined terms and the name of the I&RS services in the Rules to reflect conventional use of such terms. NSCC is proposing to change the name of I&RS from “Insurance and Retirement Processing Services” to “Insurance & Retirement Services”. In addition, NSCC is proposing to change the term “IPS Data” to “I&RS Data”, change the term “IPS Eligible Products” to “I&RS Eligible Products”, and change the term “MF/IPS Products” to “MF/I&RS Products”. NSCC is also proposing to remove the footnote in Rule 57 that states the I&RS was formerly known as the Insurance Processing Service as such information is not necessary.

(ii) Proposed Rule Changes

NSCC proposes to amend Rule 57 to add a new feature within I&RS, called Insurance Information Exchange or IIEX, that would enable I&RS Members and their service providers to transmit, view and retrieve I&RS Data using a centralized data repository.¹⁰ IIEX would be an optional feature, and I&RS Members would have access to the repository through their existing connection to NSCC or using APIs being developed in connection with the feature. Service providers would have access to IIEX using APIs only, based on authorization by I&RS Members. The subscription would

¹⁰ Rule 57 generally provides that NSCC will not be responsible for the completeness or accuracy of any data transmitted between NSCC Members through I&RS, nor for any errors, omissions or delays which may occur in the absence of gross negligence on NSCC’s part, in the transmission of such data between NSCC Members. See Rule 57, Section 1(j), supra note 6. The proposed changes to Rule 57 would be subject to these limitations.

allow for multiple intraday transmission, viewing, and retrieval of I&RS Data to which the I&RS Member or service provider is entitled to receive in the data repository. The proposed rule change would also provide that service providers would be required to enter into such agreements as determined by NSCC to gain access to IIEX, which agreements will include an agreement to pay the fees set forth in the Rules for IIEX.

NSCC also proposes to amend Addendum A of the Rules to include the fees for subscription to IIEX.

IIEX Fees for I&RS Members

IIEX was developed at the request of and in consultation with industry participants and the proposed fees for IIEX were created to pay for the costs of developing IIEX and maintaining IIEX in a manner that would fulfill the requirements for IIEX expected from industry participants consistent with NSCC's cost-based plus markup fee model.¹¹ Based on financial projections of development and maintenance costs and anticipated participation by I&RS Members and service providers, it is not anticipated that the IIEX costs and revenues will change the overall operating margin percentage of I&RS.

The proposed fee for I&RS Members would be a monthly subscription based on

¹¹ NSCC has in place procedures to control costs and to regularly review pricing levels against costs of operation. NSCC's fees are cost-based plus a markup as approved by its Board of Directors. This markup is applied to recover development costs and operating expenses, and to accumulate capital sufficient to meet regulatory and economic requirements. See NSCC Disclosure Framework for Covered Clearing Agencies and Financial Market Infrastructures, available at https://www.dtcc.com/-/media/Files/Downloads/legal/policy-and-compliance/NSCC_Disclosure_Framework.pdf, at 121.

the number of policies an I&RS Member would be able to access in the data repository consistent with the current fee structure for I&RS Data. For instance, transaction fees for Positions are currently based on the number of policies accessed by each side (i.e., the side delivering and the side receiving).¹² Also consistent with the current fee structure, the fees for IIEX will be tiered based on the number of policies to which a participant has access through IIEX.¹³ Those I&RS Members or service providers that have access to more policies will pay a higher monthly fee but will pay a reduced fee per policy. For instance, an I&RS Member that has access to 50,000 policies through IIEX will pay a monthly fee of \$1,500 which would be 3 cents per policy ($\$1,500/50,000$). An I&RS Member that has access to 200,000 policies through IIEX would pay a higher fee of \$2,000 per month which would be 1 cent per policy ($\$2,000/200,000$). As the number of policies a participant has access to increases, the monthly fee increases by tier but the price per policy decreases as more policies are accessed through each tier level. This is consistent with the anticipated costs of developing and maintaining IIEX. The incremental costs to NSCC of adding a policy to the IIEX repository is not exactly linear. For instance, while it will cost more to house 100,000 policies than it does to house 50,000 policies in the IIEX repository, it will not cost twice as much. In addition, as discussed above the fees were intended to cover the costs of developing and maintaining IIEX in accordance with NSCC's cost-based plus markup fee model.¹⁴ The fee structure

¹² See Section K.2. of Addendum A of the Rules, supra note 6.

¹³ See e.g., Positions fees which are tiered based on the number of items (i.e., policies) are sent or delivered. Id.

¹⁴ See supra note 11.

for existing services will not be affected by the new fees for IIEX.

This fee structure is designed to cover the costs of developing and maintaining IIEX.

Fees for I&RS Members that subscribe to IIEX would be as follows:

<u>Number of Policies</u>	<u>Monthly Fee</u>
0 – 50,000	\$1,500
50,001 – 200,000	\$2,000
200,001 – 400,000	\$3,000
Greater than 400,000	\$5,000

IIEX Fees for Service Providers

The proposed fee for service providers, that would only have access to IIEX through APIs, would be half the fees charged to I&RS Members and would also be based on the number of policies the service providers would be able to access in the data repository. Service providers are being charged half of the fees of I&RS Members for IIEX because they will only have access to APIs and the costs for developing and maintaining APIs is less than the costs for developing and maintaining IIEX for direct access for I&RS Members. Fees for service providers that subscribe to IIEX would be as follows:

<u>Number of Policies</u>	<u>Monthly Fee</u>
0 – 50,000	\$750
50,001 – 200,000	\$1,000
200,001 – 400,000	\$1,500
Greater than 400,000	\$2,500

For instance, if a Carrier subscribes and has access to 49,000 policies, the monthly fee for that Carrier would \$1,500 because it is an I&RS Member. If a Distributor

subscribes and is provided access only to such Carrier's 49,000 policies, the monthly fee for the Distributor would also be \$1,500 because it is an I&RS Member. If a service provider subscribes and is provided access only to such Carrier's 49,000 policies, the monthly fee for the service provider would be \$750.

Proposed Name Changes and Clarification Changes

NSCC would also amend NSCC's Rules to reflect the proposed name change of I&RS to Insurance & Retirement Services and change the term "IPS Data" to "I&RS Data", change the term "IPS Eligible Products" to "I&RS Eligible Products", and change the term "MF/IPS Products" to MF/I&RS Products". NSCC would also remove the footnote in Rule 57 that states the I&RS was formerly known as the Insurance Processing Service as such information is not necessary. Such changes would be made in several places in the Rules.

(iii) Implementation Timeframe

NSCC would implement the proposed changes by no later than November 30, 2020. In connection with the development of IIEX, NSCC worked with a group of I&RS Members (the "Pilot Group") to determine the requirements for IIEX that would be expected from industry participants. IIEX would initially be offered only to I&RS Members that are members of the Pilot Group in November 2020 in order to finalize testing in a production environment. For their assistance in the development of IIEX and assistance in the initial testing in production data, NSCC would not charge members of the Pilot Group for IIEX until the first full month that IIEX is available to the Pilot Group in a production environment, which is anticipated to be December 2020. IIEX would be offered to all I&RS Members and their service providers beginning January 1, 2021.

As proposed, legends would be added to the Rules stating there are changes that

became effective upon filing with the Securities and Exchange Commission but have not yet been implemented. Each proposed legend also would include a date by which such changes would be implemented and the file number of this proposal, and state that, once this proposal is implemented, the legend would automatically be removed from the Rules & Procedures.

In addition, a footnote would be added to the description of IIEX in Rule 57 that states that IIEX will initially be offered only to I&RS Members that are members of the Pilot Group, that NSCC will offer IIEX to members of the Pilot Group in November 2020 in order to finalize testing in a production environment, that NSCC will not charge the members of the Pilot Group until the first full month that IIEX is available to the Pilot Group in a production environment which is anticipated to be December 2020 and that on January 1, 2021, IIEX will be offered to all I&RS Members and their service providers pursuant to Rule 57 and the footnote will automatically be removed from Rule 57.

2. Statutory Basis

Section 17A(b)(3)(F) of the Act¹⁵ requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions. The changes to the name of I&RS to “Insurance & Retirement Services”, the change of the defined terms discussed above and the removal of the footnote relating to the former name of I&RS are consistent with this provision because the proposed clarification changes would enhance clarity and transparency for participants with respect to services offered by NSCC allowing I&RS Members to have a better understanding of the Rules relating to I&RS. The name changes would reflect current uses of the terms used within

¹⁵ 15 U.S.C. 78q-1(b)(3)(F).

I&RS and removing unnecessary language will help to clarify the Rules. Having clear and accurate Rules would help I&RS Members to better understand their rights and obligations regarding NSCC's services. NSCC believes that when I&RS Members better understand their rights and obligations regarding NSCC's services, they can act in accordance with the Rules. NSCC believes that better enabling I&RS Members to comply with the Rules would promote the prompt and accurate clearance and settlement of securities transactions by NSCC consistent with the requirements of the Act, in particular Section 17A(b)(3)(F) of the Act.¹⁶

Section 17A(b)(3)(D) of the Act¹⁷ requires that the Rules provide for the equitable allocation of reasonable dues, fees, and other charges among its participants. NSCC believes that the proposed rule change to Addendum A is consistent with this provision of the Act because the proposed fees would align with the cost of building and delivering the proposed IIEX repository to I&RS Members and their service providers consistent with NSCC's cost-based plus markup fee model.¹⁸ NSCC believes the proposed changes to the fee are equitable because they would apply uniformly to all Members and service providers that utilize the services. NSCC believes the proposed changes are reasonable because they would be commensurate with the costs of resources allocated by NSCC in developing and maintaining IIEX. Based on financial projections of development and maintenance costs and anticipated participation by I&RS Members and service providers,

¹⁶ Id.

¹⁷ 15 U.S.C. 78q-1(b)(3)(D).

¹⁸ See supra note 11.

it is not anticipated that the IIEX costs and revenues will change the overall operating margin percentage of I&RS. Therefore, by establishing fees that align with the cost of delivery of this feature and allocating those fees equitably among the subscribing users, the proposed rule change would provide for the equitable allocation of reasonable dues, fees and other charges among its participants consistent with the requirements of Section 17A(b)(3)(D) of the Act.¹⁹

In addition, the proposed rule change is designed to comply with Rule 17Ad-22(e)(21) promulgated under the Act.²⁰ Rule 17Ad-22(e)(21) under the Act requires NSCC to, inter alia, establish, implement, maintain and enforce written policies and procedures reasonably designed to be efficient and effective in meeting the requirements of its participants and the markets it serves. The proposed rule change would enhance the ability of I&RS Members and their service providers to transmit, view and retrieve I&RS Data in a secure, centralized location. IIEX would provide I&RS Members and their service providers a more efficient method of transmitting, viewing and retrieving I&RS Data and enable I&RS Members and their service providers to provide data necessary for transacting business more quickly and in a more streamlined manner. Therefore, by establishing a more efficient and effective process for data providers to deliver, and data receivers to receive, I&RS Data, NSCC believes that the proposed change is consistent with the requirements of Rule 17Ad-22(e)(21), promulgated under the Act.²¹

¹⁹ 15 U.S.C. 78q-1(b)(3)(D).

²⁰ 17 CFR 240.17Ad-22(e)(21).

²¹ Id.

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

NSCC does not believe that the proposed rule change would have any adverse impact, or impose any burden, on competition because the proposed rule change would add an optional function to NSCC's services that would provide a more efficient method by which subscribing Carriers and Distributors and their service providers may transmit, view and retrieve I&RS Data. IIEX would not affect the type of I&RS Data that I&RS Members or their service providers are able to transmit, view and retrieve pursuant to I&RS, it would only affect the manner in which I&RS Members and service providers may transmit, view and retrieve I&RS Data. IIEX would not affect services for I&RS Members or service providers that do not subscribe to IIEX and they would transmit, view and retrieve I&RS Data in the same manner as they currently transmit, view and retrieve I&RS Data. The fees for IIEX were designed to be reasonable and align with the projected cost of building and operating the IIEX repository and APIs. Therefore, as an optional feature available for subscription, the proposed rule change would not disproportionately impact any NSCC Members, have any effect on existing NSCC services other than to add a new method of transmitting, viewing and retrieving I&RS Data, nor have any adverse impact on competition.

Moreover, because the proposed rule change would improve the efficiency by which subscribing I&RS Members and their service providers may view, transmit and retrieve I&RS Data, the proposed rule change may have a positive effect on competition among Carriers and Distributors. The proposed feature would provide these firms with a faster, more streamlined method of transmitting and receiving I&RS Data, and therefore could enable IPS Eligible Products to be marketed more quickly. Specifically,

Distributors could have the ability to distribute IPS Eligible Products into the market to consumers more quickly because Distributors would have the ability to obtain information with respect to these products in a quicker, more efficient manner. NSCC does not believe that offering early access to IIEX to members of the Pilot Group for testing in the production environment will have any impact on competition. While such members will be able to access data in IIEX earlier than other I&RS Members, NSCC does not believe the early access to the data in the new repository for less than two months will have any appreciable effect on the market for such data or competition.

NSCC does not believe that the proposed changes to the name of I&RS or to the defined terms as described above, or the removal of the footnote explaining the former name of I&RS, would have any impact on competition because such changes are clarifications of the Rules which would improve the Member's understanding of the Rules and would not otherwise affect the rights or obligations of I&RS Members.

(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 it receives.

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 Act²² and paragraph (f) of Rule 19b-4 thereunder.²³ At any time within 60 days of

²² 15 U.S.C 78s(b)(3)(A).

²³ 17 CFR 240.19b-4(f).

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.

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. Please include File Number SR-NSCC-2020-017 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-2020-017. 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-2020-017 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.²⁴

J. Matthew DeLesDernier
Assistant Secretary

²⁴ 17 CFR 200.30-3(a)(12).