

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-100507; File No. SR-NSCC-2024-005)

July 11, 2024

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Add Paperless Replacements and Producer Authorization Service Offerings to I&RS and Make Certain Clarification Changes in the Rules

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 3, 2024, 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,³ Rule 19b-4(f)(2)⁴ and Rule 19b-4(f)(4) thereunder.⁵ 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 Insurance & Retirement Services (“I&RS”) in order to (i) provide for two new service offerings relating to replacements of insurance contracts and producer authorizations, and related fees for each new service offering, (ii) update the descriptions of I&RS service offerings and certain

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).

defined terms in Rule 57 and Addendum A of NSCC's Rules & Procedures ("Rules").
and (iii) make other clarification changes, as described in greater detail below.⁶

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

The proposed rule change consists of modifications to the Rules in order to (i) provide for two new service offerings relating to replacements of insurance contracts and producer authorizations, and related fees for each new service offering, (ii) update the descriptions of I&RS offerings and certain defined terms in Rule 57 and Addendum A, and (iii) make other clarification changes, as described in greater detail below.

The objectives and expected impacts of the proposed rule change to I&RS Members⁷ would be to make available two new optional service offerings that would

⁶ Terms not defined herein are defined in the Rules, available at www.dtcc.com/legal/rules-and-procedures.

⁷ I&RS Members 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,

provide more efficient methods for I&RS Members to choose to transmit, view and retrieve I&RS Data and improve Members' understanding of the Rules relating to I&RS.

The proposed new service offerings discussed below were developed at the request of and in consultation with industry participants, and the proposed fees for such service offerings were designed to pay for the costs of developing and maintaining such offerings in a manner that would fulfill the requirements expected from industry participants consistent with NSCC's cost-based plus markup fee model.⁸ Based on financial projections of development and maintenance costs and anticipated participation by I&RS Members, it is anticipated that the costs and revenues would result in a slight increase in the overall operating margin percentage of I&RS. NSCC anticipates recouping the costs of building the service offerings within approximately two years of implementing the fees.

I&RS Services

I&RS allows I&RS Members to transmit I&RS Data⁹ among each other, including data relating to annuity and life insurance policy applications and premiums,

“Distributors,” and, together with “Carriers,” collectively referred to herein as “I&RS Members”).

⁸ 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 www.dtcc.com/-/media/Files/Downloads/legal/policy-and-compliance/NSCC_Disclosure_Framework.pdf, at 124.

⁹ “I&RS Data” means data and information relating to I&RS Eligible Products. See Rule 57, supra note 6. “I&RS Eligible Product” means an insurance product or a retirement or other benefit plan or program included in the list for which

licensing and appointments, commission payments, reporting of client positions and valuations, asset pricing, financial activity reporting and annuity customer account transfers. I&RS also allows certain I&RS Members to settle payments relating to I&RS Eligible Products. NSCC does not act as a central counterparty with respect to I&RS and I&RS are not guaranteed by NSCC.

Paperless Replacements Processing (RPL)

NSCC is proposing to establish a new service offering intended to support the transmission of I&RS Data regarding the transfer, exchange or replacement of existing insurance or annuity contracts (“Paperless Replacements”). Clients of I&RS Members holding insurance or annuity contracts replace existing contracts with new contracts from time to time. These replacements involve transfer of asset forms such as 1035 forms¹⁰ and other such forms or documents to document the requests and the authorization for a replacement. Currently, for Carriers, there is no centralized automated process for replacements and such replacements are a manual process involving exchanging paperwork often between different Carriers using facsimile, mail, email or other means. Paperless Replacements would provide for a data-only transmission relating to such replacements between Carriers, automating the current manual process and decreasing the administrative burden on and risk to Carriers of processing these replacements.

provision is made in Section 1.(d) of Rule 3 of the Rules. See definition of I&RS Eligible Product, Rule 1, supra note 6.

¹⁰ 1035 forms are forms required to process a 1035 exchange which is an exchange made pursuant to a provision in the Internal Revenue Service tax code allowing for a tax-free transfer of certain insurance and annuity products.

There also may be movement of funds associated with these replacements. Settlement Processing for Insurance, an existing settlement feature of I&RS supporting the settlements of payments relating to I&RS Eligible Products,¹¹ currently supports the settlement of payments related to such replacements and would continue to do so following the addition of Paperless Replacements. The settlement feature, together with Paperless Replacements, would provide for an automated process for processing forms and documents for replacements of such contracts and associated funds. In order to adopt this service offering, NSCC would amend Rule 57 to describe Paperless Replacements, as described below.

NSCC would also amend Addendum A to adopt a fee for Paperless Replacements of \$1.85 per request. The fee would only be charged to the I&RS Member submitting the replacement request.

Producer Authorization (PAR)

NSCC is proposing to establish a new feature (“Producer Authorization”) to allow I&RS Members to confirm credentials of insurance producers. Insurance producers are insurance agents or brokers that are licensed by state insurance authorities to sell insurance related products on behalf of Carriers. In the process of selling insurance related products, Distributors must ensure that producers they use to distribute products are licensed, appointed and trained to sell such products in the markets the Distributors are targeting. Carriers that issue the products maintain data reflecting the licensing information relating to producers that are licensed to sell their products. Currently, there

¹¹ See subsections (k) and (l) of Section 1 of Rule 57, supra note 6.

is no standardized method for Distributors to communicate with Carriers to authenticate that producers are authorized to sell the Carriers' products in particular markets. Producer Authorization would provide a standardized data transmission to allow Distributors to confirm with Carriers the credentials of insurance producers to sell specific products. NSCC would amend Rule 57, as described below, to describe the Producer Authorization service.

NSCC would also amend Addendum A to adopt fees for the Producer Authorization. The fees would consist of a monthly fee, ranging from \$250 to \$5,000 per month, that is based on the number of messages received during the month. The fees would only be charged to the Carriers receiving the Producer Authorization requests.

Clarifications to Rule 57 and Addendum A

NSCC would reorganize and clarify Rule 57 and Addendum A to more clearly describe the existing service offerings and incorporate descriptions for Paperless Replacements and Producer Authorization, as described above. Rule 57 is currently organized such that Section 1 of Rule 57 applies to all I&RS and Sections 2 through 10 of Rule 57 list out the separate service offerings within I&RS. Some service offerings, such as I&RS settlement, are only described in Section 1 and some service offerings are not specifically named in Rule 57 or are described within other named service offerings. NSCC is proposing to reorganize the sections of Rule 57 such that each service offering is separately listed in alphabetical order in newly numbered sections 2 through 17. The proposed list of such service offerings would include certain service offerings that are currently described within sections for other service offerings in the Rules. NSCC would move these descriptions into stand-alone sections of Rule 57 to better align the

descriptions of all the service offerings with current NSCC marketing of such service offerings.

NSCC is also proposing to update the descriptions of I&RS features and certain defined terms in Rule 57 and Addendum A to align the Rules with conventional descriptions used by NSCC and I&RS Members and make other clarification changes. NSCC would update Rule 57 to ensure that consistent defined terms are used to describe I&RS Members and I&RS features.

NSCC is also proposing to update Rule 57 and Addendum A to add a three-letter designation for certain service offerings and fees to match descriptions of such service offerings and fees in current NSCC marketing descriptions.

Proposed Rule Changes

In order to implement the proposal, NSCC would move the defined term “I&RS Members”, which describes all membership types that can use I&RS, from Section 10 to Section 1(a) of Rule 57 and consistently use the defined term throughout Rule 57 to describe all membership types that can use I&RS. In addition, NSCC would add a definition of “I&RS Payments” in Section 1(a) of Rule 57 to mean payments related to I&S Eligible Products to better describe the payments that that are processed in I&RS.

NSCC would also reorganize description of I&RS to align the description of such services with conventional uses and current marketing descriptions. Specifically, NSCC would make the following changes:

- move the description of settlement services provided by I&RS, currently primarily in subsections (k) and (l) of Section 1 of Rule 57, to a new Section 16, entitled “Settlement Processing for Insurance (STL)” to clarify the name of the

settlement services provided by I&RS and reflect that it is marketed as a separate service offering.

- reorganize the descriptions of the service offerings of I&RS in alphabetical order in Rule 57.
- add three -letter abbreviations in the title of each service offering consistent with current conventional descriptions.
- remove the phrase “I&RS Data regarding” in the ACAT/Transfers section that is being moved because the phrase is redundant.
- capitalize the word “Premiums” in the phrase “Applications and premiums” in part (b) of the Applications and Premiums section to refer to the correct defined term “Applications and Premiums” used in part (a) of that section.
- move a description of transmission of Subaccount Data, currently in Section 8 of Rule 57 in the Financial Activity Reporting description, to a new Section 7 and refer to that service offering as “Financial Activity For Asset Managers (FAM)” consistent with current descriptions of that service offering and make a corresponding change to the fee description of the service in Addendum A.¹²
- add descriptions for Paperless Replacements and Producer Authorization consistent with the descriptions above in new Sections 12 and 14, respectively.

¹² Transactions relating to subaccount data were added to I&RS as part of Financial Activity Reporting in 2018 as a method for financial managers to get access to subaccount data relating to variable products. See Securities Exchange Act Release No. 83774 (Aug. 3, 2018), 83 FR 39481 (Aug. 9, 2018) (SR-NSCC-2018-005). That service offering is now being marketed as “Financial Activity for Asset Managers.”

- remove the quotes around “IIEX” in the title Insurance Information Exchange in Section 10 and add a defined term “IIEX” into the body of Section 10 to conform the listing of the four-letter abbreviation of the service in the title with listing of the abbreviations of other services in Rule 57.
- Add a description of the Producer Management Portal (PMP) as a separate service offering in a new Section 15 of Rule 57.¹³
- Add a description of Subsequent Premiums (SUB) as a separate service offering in a new Section 17 of Rule 57 and change the description from “Subsequent Activity” to “Subsequent Premiums” in Section IV.H.2.e of Addendum A consistent with current descriptions of that service offering¹⁴

NSCC would also clarify the Rules by deleting a provision currently in Section 3 of Rule 57 “Applications and Premiums” that refers to the ability of Members and Mutual Fund/Insurance Services Member to submit a cancel instruction. The Applications and Premiums section currently provides that if such I&RS Members submit a cancellation instruction prior to a time established by NSCC for such purposes, the settlement

¹³ Licensing and Appointments (“LNA”) is a service offering that allows I&RS Members to transmit data among themselves regarding licensing and appointment authorizations and activity relating to producers. See Section 4 of Rule 57, supra note 6. In 2014, NSCC broadened LNA’s scope to specify that LNA authorization and activities included insurance-related training of a licensee or appointee in connection with a new feature being added, the Producer Management Portal. See Securities Exchange Act Release No. 72488 (June 27, 2014), 79 FR 38098 (July 3, 2014) (SR-NSCC-2014-08). Producer Management Portal is now marketed as a separate service offering.

¹⁴ Subsequent Premiums is a service offering that enables Distributors to transmit I&RS Data to Carriers regarding subsequent premiums. Previously, it has been part of Applications and Premiums but is now marketed as a separate service offering as “Subsequent Premiums (SUB).”

transaction will be canceled and removed from I&RS. When Applications and Premiums was implemented, NSCC included functionality to allow I&RS Members to submit a cancel instruction. However, I&RS Members never use the instruction and instead have developed functions outside of NSCC to provide for such cancellations. I&RS Members have not indicated plans to use the cancellation instruction and so NSCC removed the functionality. NSCC would remove the cancellation instruction language in Applications and Premiums to reflect that the cancellation instruction functionality has been removed from Applications and Premiums.

NSCC would also clarify the Rules by more clearly stating which fees are per transaction and per side. Currently, footnote 6 of Addendum A states that unless otherwise noted, transaction fees are per side, and both sides are charged for each item. However, in the description of certain fees, there is also a note that fees are per side. This note is repetitive of footnote 6, which states that all fees are per side unless otherwise noted. In addition, certain fee descriptions contain a note that such fees are “per transaction”, “per inquiry” or “per request” or similar designations and such usage is not consistent. NSCC would add in footnote 6 of Addendum A that unless otherwise noted, all fees for I&RS are per transaction, per side and remove the similar descriptions in each fee description where the general designation applies for consistency.

NSCC would change the title in Section IV.H.3 of Addendum A from “Other Service Fees” to “Other Transaction Fees” to conform to the description of transaction fees in Section IV.H.2 of Addendum A and would change the heading “TIER” listed in Section IV.H.3 to “PRICE TIER” to conform how those pricing tiers are described in other marketing materials and to avoid confusion that those tiers are related to transaction

volumes. NSCC would change the three-letter designation for Licensing and Appointments from “L&A” to “LNA” in Section IV.H.3 of Addendum A to reflect current marketing descriptions.

NSCC would also delete a reference to “Producer Management Portal (per inquiry)” currently listed under TIER 4 in Section IV.H.3 of Addendum A. The description of the fees for Producer Management Portal were moved from Section IV.H.3 to Section IV.H.2.h of Addendum A and the reference to Producer Management Portal was intended to be deleted from Section IV.H.3 in 2019 from a rule filing filed in 2018 (“2018 Filing”)¹⁵ but due to a clerical mistake the change was not made in the Rules. NSCC would delete the reference from Section IV.H.3 as contemplated by the 2018 Filing.

Implementation Timeframe

NSCC would implement the proposed changes in three phases. NSCC would implement the clarifications to Rule 57 and Addendum A discussed above upon filing. NSCC would adopt the Producer Authorization service offering, associated fees and related changes to the Rules by no later than July 31, 2024. NSCC would implement the Paperless Replacements service offering, associated fees and related changes to the Rules by no later than September 30, 2024.

¹⁵ See Securities Exchange Act Release No. 84771 (Dec. 10, 2018), 83 FR 64393 (Dec. 14, 2018) (SR-NSCC-2018-002).

2. Statutory Basis

Section 17A(b)(3)(F) of the Act, requires, that the Rules be designed to, among other things, promote the prompt and accurate clearance and settlement of securities transactions.¹⁶

The proposed addition of Paperless Replacements and Producer Authorization service offerings would provide a standardized method to communicate I&RS Data among I&RS Members relating to (i) replacements of insurance and annuity contracts and related settlement of funds and (ii) producer credentials related to specific products, each as discussed above. The addition of Paperless Replacements discussed above would enhance Carriers' ability to send and receive required information relating to replacements of insurance or annuity contracts and related settlement of funds by providing an automated data only transmission relating to such replacements between Carriers and bring greater efficiency to the transfer and settlement of those products as set forth above. The addition of Producer Authorization discussed above would enhance Distributors' ability to confirm with Carriers the credentials of insurance producers to sell specific products by providing a standardized method to communicate such information and bring greater efficiency and expediency to the buying, selling and settlement of such I&RS Eligible Products among I&RS Members. Providing a more efficient and streamlined process with respect to transmitting and receiving such I&RS Data would promote the prompt and accurate clearance and settlement of securities transactions, consistent with the requirements of Section 17A(b)(3)(F) of the Act.¹⁷

¹⁶ 15 U.S.C. 78q-1(b)(3)(F).

¹⁷ Id.

The clarifications to Rule 57 and Addendum A would enhance the clarity and transparency of the Rules with respect to services offered by NSCC. Specifically, these rule changes would allow I&RS Members to have a better understanding of the Rules relating to I&RS. The use of the defined terms “I&RS Members” and “I&RS Payments” throughout the rules and the reorganization of Section 1 of Rule 57 and the descriptions of the service offerings discussed above would reflect current uses of the terms used within I&RS. Removing the language regarding the ability of I&RS Members to submit a cancel instruction in the Applications and Premiums section which is no longer applicable would remove unnecessary language in 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.¹⁸

Section 17A(b)(3)(D) of the Act¹⁹ requires that the Rules provide for the equitable allocation of reasonable dues, fees, and other charges among its participants. NSCC believes the proposed fees for Paperless Replacements and Producer Authorization would align with the cost of building and delivering the proposed service offerings, consistent with this provision of the Act. NSCC believes the proposed changes to the fees are

¹⁸ Id.

¹⁹ 15 U.S.C. 78q-1(b)(3)(D).

equitable because they would apply uniformly to all I&RS Members that utilize the service offerings. NSCC believes the proposed changes are reasonable because they would be commensurate with the costs of resources allocated by NSCC in developing and maintaining the service offerings. Based on financial projections of development and maintenance costs and anticipated participation by I&RS Members, it is anticipated that the Paperless Replacements and Producer Authorization costs and revenues would result in a slight increase in the overall operating margin percentage of I&RS and allow NSCC to recoup the costs of building the enhancements within approximately two years of implementing the fees. Therefore, by establishing fees that align with the cost of delivery of these service offerings 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.²⁰

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

NSCC does not believe that the proposed rule changes would have any adverse impact, or impose any burden, on competition.

The proposed changes to adopt the Paperless Replacements and Producer Authorization service offerings would add optional functions to NSCC's services to provide more efficient methods by which subscribing Carriers and Distributors may transmit, view and retrieve I&RS Data. Such changes would not affect services for I&RS Members that do not subscribe to such service offerings and non-subscribing I&RS Members would transmit, view and retrieve I&RS Data in the same manner as they

²⁰ Id.

currently transmit, view and retrieve I&RS Data. The fees proposed for each of these service offerings were designed to be reasonable and align with the projected cost of building and operating such service offerings and would be charged ratably based on each I&RS Members' use of such service offerings. Therefore, the proposed changes to implement such optional service offerings and the associated fees would not disproportionately impact any I&RS 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 changes would improve the efficiency by which subscribing I&RS Members 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 features would provide these firms with a faster, more streamlined method of transmitting and receiving I&RS Data, and therefore could enable I&RS Eligible Products to be marketed more quickly. Specifically, I&RS Members could have the ability to distribute I&RS Eligible Products into the market to consumers more quickly because I&RS Members would have the ability to obtain information with respect to these products in a quicker, more efficient manner.

NSCC does not believe the clarifications to Rule 57 and Addendum A would impact competition. Such changes would help clarify the Rules. In addition, the changes would facilitate I&RS Members' understanding of the Rules and their obligations thereunder. The proposed 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 (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 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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)²¹ of the Act and paragraph (f)²² of Rule 19b-4 thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily

²¹ 15 U.S.C. 78s(b)(3)(A).

²² 17 CFR 240.19b-4(f).

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 (www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NSCC-2024-005 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-2024-005. 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 (<https://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 (dtcc.com/legal/sec-rule-filings). Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to File Number SR-NSCC-2024-005 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²³

J. Matthew DeLesDernier,

Deputy Secretary

²³ 17 CFR 200.30-3(a)(12).