

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54366; File No. SR-NSCC-2006-07)

August 25, 2006

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Clarifying and Technical Changes to NSCC's Rules Regarding Its Fund/Serv Mutual Fund Processing System

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on June 5, 2006, the National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change described in Items I, II, and III below, which items have been prepared primarily by NSCC. NSCC filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act² and Rule 19b-4(f)(4) thereunder³ so that the proposal was effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested parties.

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

The proposed rule change would make clarifying and technical changes to NSCC's Rules principally as they relate to funds which are eligible for processing on Fund/Serv, NSCC's mutual fund processing system.

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

In its filing with the Commission, NSCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78s(b)(3)(A)(iii).

³ 17 CFR 240.19b-4(f)(4).

rule change. The text of these statements may be examined at the places specified in Item IV below. NSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.⁴

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of the proposed rule change is to make clarifying and technical changes to NSCC's Rules, principally as they relate to funds which are eligible for processing on Fund/Serv, NSCC's mutual fund processing system.

Rule 52 of NSCC Rules addresses NSCC's mutual fund services. The types of funds which are eligible for NSCC's mutual fund services, including the processing on Fund/Serv, are referenced in Section 1 of Rule 52 with supplemental references in Rules 1 and 3.⁵

Funds that are eligible for NSCC's mutual fund services currently include investment companies regulated under the Investment Company Act of 1940, as amended;⁶ bank and insurance funds such as guaranteed investment contracts, bank collective investments, and stable value funds; and certain offshore funds which are established under regulatory frameworks similar to the Investment Company Act (e.g., offshore funds established under the Undertaking for Collective Investment in Transferable Securities). Some of these fund types are explicitly mentioned in NSCC's Rules (e.g., funds defined as "management companies" under section 4(3) of the Investment Company Act and funds regulated under bank and insurance law). Others have been added under NSCC's general authority regarding the designation of "Eligible Mutual

⁴ The Commission has modified the text of the summaries prepared by NSCC.

⁵ Settlement of Fund/Serv transactions is not guaranteed by NSCC.

⁶ 15 U.S.C. 80a.

Funds” under Rule 3, Section 7 (e.g., unit investment trusts regulated under the Investment Company Act and certain offshore funds domiciled outside the United States.)

The proposed changes to NSCC’s Rules will clarify the types of investment vehicles that are eligible for Fund/Serv processing, consolidate the operative provisions in Rule 3, and make technical changes to other rule provisions. The proposed amendment to Rule 3 establishes the defined term “Fund/Serv Eligible Fund” that includes any fund or other pooled investment entity that is eligible for NSCC’s mutual fund services, including processing on Fund/Serv, under Rule 3, Section 7. (The defined terms “Eligible Investment Fund” and “Eligible Mutual Fund” are being deleted.) The term is analogous to the term “Cleared Securities” under Rule 3 which is applicable to securities that are eligible for NSCC’s clearance services. Rule 3 is also amended to include a description of the current criteria used by NSCC in determining eligibility for “Fund/Serv Eligible Funds” and NSCC’s authority to establish additional criteria for eligibility from time to time using language consistent with that used for “Cleared Securities” in Rule 3.

NSCC’s current membership requirements applicable to Fund Members admitted under Rule 51 and Addendum I will continue to apply without change. The NSCC Fund Member is the entity that is responsible for settlement of NSCC transactions on behalf of the fund.

Additional, unrelated technical changes are made to several definitions in Rule 1. First, the definitions of “TPA” (i.e., third-party administrator) and “TPA Member” are amended to clarify that a “TPA Member” may act as an administrator for retirement and other benefit plans in general and not just with respect to plans which are structured as defined contribution plans under the Internal Revenue Code (i.e., defined benefit plans and nonqualified plans). Second, the definitions of “Insurance Entity” and “Fund Member” are amended to clarify that an

individual cannot qualify, and only entities organized as a corporation, partnership, or other legal entity are covered by the definitions.

NSCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act⁷ and the rules thereunder because clarifying the types of funds which are eligible for processing on NSCC's Fund/Serv system will further facilitate the accurate clearance and settlement of Fund/Serv transactions.

(B) Self-Regulatory Organization's Statement on Burden on Competition

NSCC does not believe that the proposed rule change would impose any burden on competition.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments relating to the proposed rule change have not yet been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

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

The foregoing rule change has become effective upon filing pursuant to Section 19(b)(3)(A)(iii) of the Act⁸ and Rule 19b-4(f)(4)⁹ thereunder because the proposed rule effects a change in an existing service of NSCC that (i) does not adversely affect the safeguarding of securities or funds in the custody or control of the clearing agency or for which it is responsible and (ii) does not significantly affect the respective rights or obligations of the clearing agency or persons using the service. At any time within sixty days of the filing of such rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such

⁷ 15 U.S.C. 78q-1.

⁸ 15 U.S.C. 78s(b)(3)(A)(iii).

⁹ 17 CFR 240.19b-4(f)(4).

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-2006-07 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NSCC-2006-07. 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 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 inspection and copying in the Commission's Public Reference Section, 100 F Street, NE, Washington, DC 20549. Copies of such filing also will be available for inspection

and copying at the principal office of NSCC and on NSCC's Web site at www.nsc.com. 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-NSCC-2006-07 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Nancy M. Morris
Secretary

¹⁰ 17 CFR 200.30-3(a)(12).