SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54482; File No. SR-NSCC-2006-09)

September 22, 2006

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Allow Cash, Next Day, and Seller's Option Equity Trades to be Processed in the Continuous Net Settlement System and to Modify the Clearing Fund Formula to Mitigate the Risk Associated with the Shorter Settlement Cycle of Cash and Next Day Settling Trades

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] notice is hereby given that on July 24, 2006, the 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 NSCC. 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

NSCC is seeking to modify its procedures for equity trade processing to enable cash,[2] next day,[3] and seller's option[4] equity trades received on a locked-in basis from self-regulatory organizations ("SROs") and Qualified Special Representatives ("QSRs") to be processed in

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[1] 15 U.S.C. 78s(b)(1).

[2] A "cash trade" is a trade that settles on the same day as the trade.

[3] A "next day trade" is a trade that settles on the day after the trade ("T+1").

[4] A "seller's option trade" is a trade that gives the seller the right to deliver the securities on a specified date ranging from not less than two but not more than 180 days after the trade date.

NSCC's Continuous Net Settlement ("CNS") system.[5] NSCC is also proposing to add a new element to its clearing fund formula to cover trades, such as cash and next day settling CNS trades, that settle in less than three days.

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 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.[6]

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

A. Cash, Next Day, and Seller's Option Equity Trades Processed in CNS

Currently, cash, next day, and seller's option equity trades are recorded or compared, as applicable, and are reported by NSCC to its members but are not settled through NSCC's facilities. Instead these trades currently settle on a trade-for-trade basis directly between counterparties.

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[5] Cash and next day transactions in debt securities are compared but are not settled through NSCC. NSCC is not at this time seeking to make such transactions eligible for CNS.

[6] The Commission has modified the text of the summaries prepared by NSCC.

When NSCC updated and revised CNS in 2004 (referred to as the "CNS Rewrite"), a major aspect included a new platform for the system that accommodates real-time updates, including the capacity to add trades to the settlement process real-time for late input into CNS until noon of settlement day.[7] At that time, rule changes were made to permit as-of regular way equity trades (i.e., trades settling on a T+3 basis that are either recorded or compared after trade date) to be submitted to NSCC up to the cut-off time designated by NSCC on T+3 for processing in CNS for settlement on their originally designated settlement dates. Given the system's real-time capabilities, members would now also like to have cash, next day, and seller's option equity trades in CNS-eligible CUSIPS made eligible for processing in CNS. This would provide members with the benefits of netting, automated trade processing, and NSCC's trade guaranty. Accordingly, NSCC proposes to amend its Procedure II (Trade Comparison and Recording Service) to permit cash, next day, and seller's option equity transactions submitted by SROs and QSRs on behalf of members to be processed for settlement through the facilities of NSCC. Locked-in trade data with respect to seller's option equity transactions would be accepted for processing so long as the parties' designated settlement date is not more than 180 days beyond the trade date.

Cash trades submitted after the cut-off time designated by NSCC, which is currently 11:30a.m., would only be recorded and reported by NSCC and must, as is the current

[7] Securities Exchange Act Release No. 50026 (July 15, 2004), 69 FR 43650 [File No. SR-NSCC-2004-01].

situation, would have to be settled directly between the parties outside of NSCC.[8] Next day as-of transactions if received prior to the applicable cut-off time, would be processed for settlement on their originally designated settlement date.[9] If such trades were received after the applicable cut-off time, the trade would be assigned the next settlement day. Finally, any trades that are either (i) designated "special trades,"[10] (ii) in non-CNS eligible securities, (iii) in a security undergoing a corporate action, or (iv) scheduled to settle between the ex-dividend date and record date would continue to be processed on a trade-for-trade basis.

Conforming changes as needed are also being made to Procedure IV (Special Representative Service), Procedure V (Balance Order Accounting Operation), and Procedure VII (CNS Accounting Operation).

B. Shortened Process Trade Component in the Clearing Fund Formula

NSCC is also proposing to modify its clearing fund formula (Procedure XV) by including an additional component that is intended to mitigate the risk associated with shortened trades that are processed on a settlement cycle shorter than three days such as cash and next day settling CNS trades. Because NSCC's trade guaranty would attach to these trades prior to the

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[8] NSCC announced the 11:30 a.m. cut-off time in its Important Notice A#6220, P&S#5790 (March 23, 2006), which is the same as the cut-off time for receipt of next day as-of trade input. Any changes to the cut-off times would be announced by NSCC through an Important Notice.

[9] Id.

[10] A "special trade" is defined in NSCC's rules to mean a transaction reported to NSCC involving a cleared security either which the parties thereto agree to settle on a member-to-member basis or which NSCC designates as settling on a member-to-member basis.

scheduled collection of clearing fund monies, the proposed new additional component is intended to mitigate risk by calculating an average clearing fund requirement for this type of activity (referred to in the proposed rules and this release as “Specified Activity”) based upon historical activity.[11]

Specified Activity positions would be isolated and a charge would be applied using not less than two standard deviations. (This would be the same standard deviations as those derived for the daily volatility calculation provided that where a percentage charge is applied in lieu of a volatility charge, the same percentage charge would be applied to the relevant Specified Activity.) The new component would equal the average of a member’s three highest calculated charges for Specified Activity over the most recent 20-day period. Specified Activity includes cash trades, next day settling trades, as-of trades compared or recorded on T+3 (including trades received after the applicable T+2 cut-off time), and similar transactions.

NSCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act[12] and the rules and regulations thereunder applicable to NSCC because it should facilitate the prompt and accurate clearance and settlement of securities by increasing automated trade processing and by expanding the types of trades eligible for CNS netting. In addition, the proposed rule change should assure the safeguarding of securities and funds in NSCC’s custody or control or for which it is responsible by enabling NSCC to more accurately determine and

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[11] This component is also being added to Appendix 1.

[12] 15 U.S.C. 78q-1.

collect collateral to cover the potential additional exposures resulting from trades that are processed on a settlement cycle other than three days.

(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 were not and are not intended to be solicited with respect to the proposed rule change, and none have been received. 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

Within thirty-five days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to ninety days of such date 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 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, as amended, 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-2006-09 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-2006-09. 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.nscc.com/legal. 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-2006-09 and should be submitted on or before [insert date 15 days from publication in the Federal Register].

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[13]

Nancy M. Morris
Secretary

[13] 17 CFR 200.30-3(a)(12).