



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.

PROCEDURE II. TRADE COMPARISON AND RECORDING SERVICE

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C. Debt Securities

1. Trade Input and Comparison

The Corporation provides the following procedures for trade input and comparison of transactions in regular way debt securities, including unit investments trusts, in any par value (excluding fractions and decimals), other than securities submitted through the correspondent clearing service and by regional exchanges/marketplaces or Qualified Securities Depositories:

(a) Trade data as submitted by Members and Municipal Comparison Only Members for comparison processing is converted, if necessary, validated and matched by the Corporation to ~~insure~~ **ensure** that the details of each trade are in agreement between the purchaser and the seller.

(b) Trade data may be submitted during the timeframes specified by the Corporation from time to time, and shall include quantity, security identification, identification of the marketplace of execution, contra-broker, trade value, settlement date (which may be no greater than 50 business days beyond the trade date), trade date, unique reference number (x-ref), **MPID (the market participant identifier issued by the Financial Industry Regulatory Authority, Inc., or "FINRA")**, and other identifying details as the Corporation may require or permit and shall be in such formats as specified by the Corporation relative to the method utilized for trade submission.

(c) If the purchaser and seller have submitted trade data that matches in all required respects other than for trade value, the trades shall be deemed compared if one of the following tolerances apply:

(1) Trades that are submitted prior to the cut-off time for intraday comparison established by the Corporation from time to time shall be deemed compared using **(a), for bilateral trades,** the seller's contract amount if the contract amounts are within (i) a net \$2 difference for trades of \$1 million or less and (ii) \$2 per million for trades greater than \$1 million, **and (b), for Qualified Special Representatives and syndicate trades, the Qualified Special Representative's or syndicate manager's contract amount.**

(2) Trades that remain un-compared after the intraday comparison process shall be deemed compared during the end-of-day enhanced comparison process using **(a), for bilateral trades,** the seller's contract amount if the contract amounts are within (i) a net \$10.00 difference for trades of \$250,000 or less and (ii) \$.04 per \$1,000 for trades greater than \$250,000.

and (b), for Qualified Special Representatives and syndicate trades, the Qualified Special Representative's or syndicate manager's contract amount.

(d) ~~For t~~Trades that are submitted prior to the cut-off time for intraday comparison established by the Corporation from time to time ~~shall be deemed compared if, when~~ the purchaser and seller have submitted trade data that matches in all required respects, including contract amounts which were deemed matched pursuant to the money tolerances in subsection (c), except for the trade date, **the trades shall be deemed compared if trade dates submitted by the purchaser and seller are within 20 business days of each other and in such case, the earlier of the two trade dates is used. If the trade dates submitted by the purchaser and seller are not within 20 business days of each other, the trade will remain uncompar**.

(e) Trades deemed compared pursuant to subsections (c) and/or (d) shall be identified on output made available by the Corporation in such format as determined by the Corporation from time to time. Trades that remain uncompar after any end-of-day enhanced comparison process shall be treated as if they were submitted prior to the cut-off time for the next available comparison processing cycle.

(f) Trade input must indicate one of the following: ~~OTC~~ **corporate bond security transactions**, municipal security transactions or unit **investment** trust ~~fund~~-transactions.

(g) Corporate bond **and municipal bond** trades in quantities ~~of~~ other than multiples of a thousand (round-lots) must be divided into separate trade submissions of the round lot quantity and the odd-lot quantity (multiples of less than one thousand). All compared corporate bond **and municipal bond** trades in odd-lot quantities ~~will be are~~ processed on a trade-for-trade basis. ~~Transactions in municipal securities must be in multiples of a thousand.~~

(h) Results of the comparison process shall be provided on intraday or end-of-day output, as applicable, **and which** shall categorize trade data as:

(1) Compared/Matched - Items identified either as compared or matched on applicable output are those for which both a purchaser and a seller submitted mandatory trade details that were either identical or were compared pursuant to subsections (c) and/or (d) above and for which a comparison has been effected.

(2) Uncompar/Unmatched - Items identified as uncompar or unmatched on applicable output reflect trades submitted by the Member or the Municipal Comparison Only Member for which the opposite side either did not submit data or did not submit data which agreed in all required

respects including the use of tolerances set forth in subsections (c) and (d) above.

(3) Advisory/Match Request – Items identified as advisory or match request on applicable output represent trades submitted by another party against the Member or Municipal Comparison Only Member, but which did not match any trade the Member or Municipal Comparison Only Member submitted.

Information made available to Members and Municipal Comparison Only Members shall identify each trade as being CNS-eligible (**to be processed through the CNS Accounting System**), non-CNS-eligible (**to be processed through the Balance Order Accounting System**), or ~~trade-for-trade~~/Special Trade (**to be designated for either trade-for-trade processing outside of the Corporation's facilities or comparison-only processing**) through such designation as the Corporation shall determine from time to time.

~~Depending upon whether trade data is submitted on T or T+n and the format in which output is produced with respect to such data, the output may reflect totals.~~ Information made available to Members and Municipal Comparison Only Members may reflect such other details as the Corporation may determine from time to time.

(i)(i) The Corporation provides Members with the ability to clear and settle any compared trade on a trade-for-trade basis. Such transaction is referred to as a **trade-for-trade** Special Trade and may be classified as such, whether or not the security is a CNS security. In order for a transaction that is submitted for comparison processing to be classified as a **trade-for-trade** Special Trade, each of the purchaser and seller must indicate the appropriate trade-for-trade indicator ("Trade-for-Trade Indicator") on its trade input and such Trade-for-Trade Indicator shall be part of the terms and conditions of the applicable contract. Unless both parties submit the identical Trade-for-Trade Indicator, the trade will not compare. In addition, the Corporation itself may determine that some or all transactions in a security shall settle on a trade-for-trade basis.

(ii) The Corporation provides Members and Municipal Comparison Only Members with the ability to submit ~~trades for~~ **Special Trades for comparison-only processing**. Trade input must indicate that the trade is being submitted for comparison-only processing and such trade will not be reflected on a Consolidated Trade Summary. **Trades submitted for comparison-only processing are subject to the rules of the Municipal Securities Rulemaking Board ("MSRB")**. Information made available with respect to such trades will not designate such trades as being CNS-eligible, non-CNS-eligible, or ~~trade-for-trade~~ Special Trades.

~~(j) Members and Municipal Comparison Only Members may override clearing agent designations by submitting trade input for comparison using the appropriate Trade-for-Trade Indicator.~~

(~~k~~j)(i) All compared trades between Members in municipal securities which are not eligible for deposit in a Qualified Securities Depository ~~will be~~ are processed on a trade-for-trade basis.

(ii) All compared trades in municipal securities between Members and Municipal Comparison Only Members and between two Municipal Comparison Only Members, whether or not eligible for deposit in a Qualified Securities Depository, ~~will be~~ are processed on a trade-for-trade basis.

(~~l~~k)(i) All compared trades in municipal securities which have been processed on a trade-for-trade basis ~~will be~~ are listed on the applicable Consolidated Trade Summaries at the original contract ~~price amount~~. Each such individual listing (including any such listing pursuant to Section D.2(A)(2)(a) below) ~~will~~ constitutes a security order for all purposes of these ~~se~~ Corporation's Rules and Procedures, including the ~~National Securities Clearing Corporation Fee Schedule~~ structure. The Corporation may make additional information regarding such trades (~~e.g., any clearing agent indicated by the applicable contra party~~) available to Members and Municipal Comparison Only Members by such means as the Corporation determines from time to time.

(ii) Compared trades between Members in municipal securities which are eligible for deposit in a Qualified Securities Depository ~~will be~~ are entered into the CNS Accounting System, ~~the Balance Order Accounting System~~, or processed on a trade-for-trade basis, depending upon the Member's standing instructions to the Corporation; provided, however, that if a Member has a CNS standing instruction and the contra side has a trade-for-trade standing instruction, the transaction ~~will be~~ is processed on a trade-for-trade basis notwithstanding the CNS standing instruction, provided, further, that Members may override a CNS standing instruction by submitting trade input for comparison as a Special Trade.

(~~m~~l) When the Corporation processes municipal securities transactions as Special Trades (~~with the exception of comparison-only trades~~), the resultant compared trades, as indicated on the applicable Consolidated Trade Summaries, are subject to the rules of the MSRB, including but not limited to ~~the such rules'~~ close-out provisions and delivery requirements, and the transactions ~~will~~ are not ~~be~~ included in the Balance Order Accounting Operation. Settlement of the resultant compared trades is the responsibility of the parties to the trades.

(~~n~~m) The Corporation may accept locked-in trade data reported by Self-Regulatory Organizations, Qualified Special Representatives and Service Bureaus on behalf of Members and Municipal Comparison Only Members. Such

trade data ~~will be~~ is reflected on appropriate output as determined by the Corporation. Receipt of a locked-in trade that satisfies the Corporation's trade input requirements shall result in a compared trade. The status of such transaction as a compared trade shall not be affected by output indicating a status of "match request" or "unmatched".

Submission of any input or instruction by a Member or Municipal Comparison Only Member on behalf of whom locked-in trade data is being submitted shall have no legal effect notwithstanding output made available by the Corporation as a result of such submission.

Data submitted by a Qualified Special Representative which identifies a trade as a syndicate takedown shall be rejected.

Member submission of a bilateral trade that matches a Qualified Special Representative's trade submission in all respects (other than its designation as a bilateral trade) is converted into a Qualified Special Representative target trade at the end of the day on which it is submitted.

(~~en~~) If a trade, other than a trade which the parties have identified as being submitted for comparison-only processing, is submitted with a settlement date of or prior to the date of submission after such cutoff time as the Corporation may designate, the Corporation ~~will~~ shall assign a delivery date of the next Settlement Date.

(~~po~~) Trade input and comparison of transactions submitted for T+1 settlement is handled in the same manner as ~~set forth above with respect to~~ transactions submitted for regular way settlement.

(~~qp~~) The Corporation shall accept cash transactions (**where trade date is the same date as settlement date**) for comparison-only processing. Results of the comparison-only process for these items are reported by the Corporation as specified from time to time. Settlement of the resultant compared trades is the responsibility of the parties to the trades.

2. Resolution of Uncompared Trades in Regular Way Debt Securities

The Corporation provides the following procedures for resolution of uncompared trades in Regular Way Debt Securities:

(a) In order to accept a trade that is reported as advisory or match request, a Member or Municipal Comparison Only Member must submit the appropriate instruction within the timeframes specified by the Corporation from time to time.

(b) A Member or a Municipal Comparison Only Member with an advisory or match request that does not agree with the terms of the trade may respond with the appropriate instruction indicating the reason, if any, that ~~the member~~ it disagrees with the terms of the trade. ~~Submission of~~ such instruction must be submitted within the

timeframes specified by the Corporation from time to time and **will** causes the trade to be deleted from processing. The Member or Municipal Comparison Only Member may submit a subsequent instruction on the same day to return the trade to processing.

(c) Members and Municipal Comparison Only Members ~~who, subsequent to their submission of trade data, find that such trade data is incorrect~~ may delete uncomparing trades by forwarding the appropriate instruction by the time specified by the Corporation from time to time.

(d) ~~No p~~**Partial** deletions for transactions in debt securities ~~will be~~ **are not** permitted.

(e) Previously compared trades may be ~~deleted~~ **reversed** through the submission of offsetting trade details by both parties to the transaction. ~~Each of t~~The purchaser and the seller must **each** submit the trade details within the timeframes specified by the Corporation from time to time and ~~they~~ **such trade details** must match in all respects or **match** pursuant to **the tolerances set forth in** subsections (c) and/or (d) of Section C.1 above (~~“Trade Input and Comparison”~~).

(f) Transactions which are deleted **or reversed**, and offsetting **transactions submissions** which are ~~submitted and~~ matched **will** appear on the appropriate output. Unless otherwise specified herein, deletion **or reversal** of a trade **pursuant to the procedures set forth above does will** not extinguish the rights and obligations of either party with respect to such trade.

(g) The Corporation may permit uncomparing trade details to be modified by the submitter ~~on the submission date~~ through the use of the appropriate instruction within the timeframes specified by the Corporation from time to time. **Syndicate takedown submissions may only be modified on the submission date.** After ~~the submission date~~ **trade is matched**, only such fields as determined by the Corporation from time to time may be modified by the submitter.

(h) Transactions which compare ~~for the first time~~ after such cutoff time as the Corporation may designate on the date on which they were scheduled to settle or later ~~will be~~ **are** assigned a ~~new~~ Settlement Date, ~~which will be of~~ the next business day following the date the trade is compared ~~by the Corporation~~. The assignment of a new Settlement Date applies to ~~both~~ **trades designated for CNS-eligible processing, Balance Order Securities processing, and trade-for-trade Special Trades (i.e., trades** other than those submitted for comparison-only processing).

(i) Trade input which is not compared by such timeframes as determined by the Corporation from time to time shall be deleted from processing.

(j) The Corporation shall have no responsibility for determining whether any trade submission is duplicative of an earlier trade submission. Any such input shall be treated as a separate submission for all purposes of these Rules and Procedures.

(k) Only the submitter of a locked-in trade may submit subsequent processing instructions with respect to such trade and any action in this respect taken by the Member or Municipal Comparison Only Member on behalf of whom such trade has been submitted shall have no legal effect notwithstanding output made available by the Corporation as a result of such action.

D. When-Issued and When-Distributed Securities

The Corporation provides Members with the ability to compare transactions in debt when-issued securities. Trade Comparison for transactions in equity when-issued securities occurs outside of the Corporation through the facilities of relevant Self-Regulatory Organizations and/or Qualified Special Representatives.

1. Equity

(a) Input

Trade data for when-issued and when-distributed equity transactions must be submitted and ~~will be is~~ recorded in the same manner as specified in subsection B of this Procedure II.

(b) Settlement

The Settlement Date for issues traded on a when-issued and when-distributed basis is established by the appropriate regulatory authority. When-issued and when-distributed compared trades ~~will be are~~ netted and allotted with regular way trades for the same Settlement Date as the when-issued and when-distributed trades.

When-issued and when-distributed trading activity may enter either the Balance Order Accounting Operation, the Foreign Security Accounting Operation, or the CNS Accounting Operation for settlement at the appropriate time. Determination of eligibility for CNS is at the discretion of the Corporation.

2. Debt

(A) ~~If the Corporation has information that a municipal or corporate debt security is coming to market, t~~The following provisions ~~shall~~ apply to municipal debt securities:

(1)(a) Municipal ~~and corporate~~ securities transactions that are submitted at least one day prior to the initial Settlement Date for the issue ~~will be are~~ processed in accordance with this subsection 2(A) if they specify (i) a final settlement amount and a settlement date that is the initial Settlement Date for the issue, (ii) a final settlement amount, a settlement date and a specified number of days after the Initial Settlement Date for the issue, (iii) a dollar price or a dollar price and a specified number of days after the initial Settlement Date for the issue, or (iv) ~~for municipal securities,~~ a price-to-yield and concession (if any) or a price-to-yield

concession and a specified number of days after the ~~initial~~ Settlement Date for the issue.

(b) Municipal ~~and corporate~~ securities transactions that are submitted one day prior to the initial Settlement Date for the issue or later, and contain a settlement date which is after the initial Settlement Date for the issue, but do not meet the above criteria ~~will be~~ are treated as regular way transactions.

(c) All other transactions that are not submitted as specified **in subsections (1)(a) and (b)** above ~~will be~~ are rejected.

(2) Trade input, comparison/trade recording, resolution of uncomparing trades and settlement for transactions accepted by the Corporation pursuant to subsection (1)(a) of this subsection 2(A) above function in the same manner as with respect to regular way transactions, except for the following:

(a) When the initial Settlement Date and all required pricing information for an issue ~~is known by~~ has been submitted to the Corporation (and, if deemed necessary by the Corporation, confirmed in a manner satisfactory to the Corporation), the Corporation ~~will~~ shall calculate the final settlement amount for all transactions that do not have a final settlement amount, and trades ~~will be~~ are deemed compared ~~either~~ if either (i) the final settlement amounts are identical or (ii) if the final settlement amounts fall within the money tolerances set forth in subsection (c) of Section C.1. ~~of this Procedure II above (“Trade Input and Comparison”)~~. In addition, when the initial Settlement Date has been changed and the Corporation is notified of a new initial Settlement Date least 2 days prior to such date ~~(independently confirmed, to the extent deemed necessary)~~ (and, if deemed necessary by the Corporation, confirmed in a manner satisfactory to the Corporation), the Corporation ~~will~~ shall recalculate the final settlement amounts for all affected transactions (whether or not the original final settlement amount was calculated by the Corporation), and the new final settlement amounts ~~will be~~ are set forth on the applicable contract lists or other applicable output made available by the Corporation.

If a submission contains a settlement date and a final settlement amount, but the Corporation does not have confirmation satisfactory to it of the initial Settlement Date for the issue, then the Corporation ~~will~~ shall report the transaction as a memo item on the output it makes available to Members. If the Corporation obtains, within 2 days of the submission, confirmation satisfactory to it of the initial Settlement Date for the issue which matches the settlement date submitted or matches the settlement date submitted by taking into account the specified number of extended settlement days submitted, the memo items ~~will be~~ are changed to compared or uncomparing/advisory, as appropriate. If no such confirmation is obtained within 2 days of submission, the items ~~will be~~ dropped ~~are~~ deleted.

(b) Any when-issued compared trade which is to be entered into the CNS Accounting Operation ~~will shall enter the CNS Accounting Operation prior to the opening of business on the day prior to the Settlement Date or prior to the opening of business on the day prior to the date the parties intended to settle the trade for which extended settlement was designated and will~~ be netted with any regular-way compared trades for the same Settlement Date.

~~(c) Output provided by the Corporation reflecting compared, uncomparing and advisory data will provide totals.~~

~~(cd)(i)~~ The initial Settlement Date for municipal issues is established by the issuer or underwriter, but ~~except as provided below for syndicate takedown trades, the settlement date~~ may be extended by agreement of the submitting parties similar to regular way municipal trades. The Settlement Date for syndicate takedown trades may not be extended.

~~(ii) The initial Settlement Date for corporate debt issues is established by the appropriate authority.~~

~~(de)(i)~~ If the Corporation is notified that the initial Settlement Date is postponed after the applicable Consolidated Trade Summary has been made available, the fact that trades in such issue are indicated in such Consolidated Trade Summary ~~will be of~~ shall have no force and effect for purposes of the Corporation's Rules and Procedures unless the Corporation notifies Members to the contrary. In such case, the Corporation may adjust accrued interest as determined by the Corporation from time to time. The provisions of this paragraph also apply to transactions that are treated as regular way transactions pursuant to subsection (1)(b) of this subsection 2(A) above.

~~(ef)~~ If the Corporation receives notice that an entire issue has been canceled prior to its initial Settlement Date, trades in such issue ~~will be~~ are deleted by the Corporation from the comparison process and, if the applicable Consolidated Trade Summary has been made available, trades in such issue that are indicated in such Consolidated Trade Summary ~~will be~~ are considered null and void by the Corporation. To the extent that any trades in such issue have been entered into the CNS Accounting Operation, such trades ~~will~~ shall be journalled out of CNS. The provisions of this paragraph also apply to transactions that are treated as regular way transactions pursuant to subsection (1)(b) of this subsection 2(A) above.

~~(fg)~~ Transactions that remain uncomparing at the close of business on the day prior to the initial Settlement Date for the issue shall be deleted from processing.

~~(gh) With respect to municipal securities:~~ (i) Syndicate takedown trades may ~~only~~ be submitted for comparison by both the syndicate manager and the syndicate member, and, in both cases, such trade input must be identified as a syndicate takedown trade. A syndicate manager or a syndicate member that

does not agree with the terms of a takedown trade as reported on the contract sheet may delete the trade by submitting the appropriate instruction to the Corporation by the time specified by the Corporation.

Submissions of a syndicate takedown trade **by a syndicate manager that are not deleted will** result in a compared trade; **submissions of a syndicate takedown trade by a syndicate member that are not deleted result in a compared trade only after submission by the syndicate manager on that trade. Compared trades which will be** reported to the syndicate manager and the syndicate member on output made available by the Corporation. The status of such transaction as a compared trade shall not be affected by output indicating a status of “match request” or “unmatched”. **If a syndicate manager or a syndicate member does not agree with the terms of a takedown trade as reported on the contract sheet, he may delete the trade by submitting the appropriate instruction to the Corporation by the time specified by the Corporation.**

(ii) Syndicate takedown submissions against Members and Municipal Comparison Only Members designated as brokers' brokers by the Corporation will be rejected. The Corporation shall maintain a list of such brokers' brokers which shall be available to Members upon request.

(iii) **Syndicate takedown reversals shall be submitted by both a syndicate manager and the syndicate member. Only the syndicate manager may submit a withhold or a reversal and, in both cases, such trade input must be identified as a syndicate takedown trade. A syndicate manager or a syndicate member that does not agree with the terms of a reversal takedown trade as reported on the contract sheet may delete that reversal trade by submitting an appropriate instruction to the Corporation by such time specified by the Corporation.**

Submissions of a ~~withhold/syndicate takedown~~ reversal **by a syndicate manager that are not deleted will** result in a compared ~~withhold/~~reversal trade; **submissions of a syndicate takedown reversal by a syndicate member that are not deleted result in a compared reversal trade only after submission by the syndicate manager on that reversal trade. Compared reversal trades which will be** reported to the syndicate manager and syndicate member on output made available by the Corporation.

(iv) Submission of any instruction by the syndicate member not otherwise provided for under these Rules and Procedures shall have no legal effect notwithstanding output made available by the Corporation as a result of such submission.

(v) All syndicate takedown trades ~~will~~ settle on a trade-for-trade basis. Extended settlement date ~~will is~~ not ~~be~~ available for syndicate takedown trades.

(vi) Member submission of a bilateral trade that matches a syndicate manager's submission on a syndicate takedown trade or a syndicate takedown reversal in all respects (other than its designation as a bilateral trade) will be converted into a syndicate takedown trade or syndicate takedown reversal, as appropriate, at the end of the day on which it is submitted.

(B) If the Corporation has received a transaction in a security for which the Corporation does not have information with respect to its coming to market that satisfies subsection (A)(1)(a) of this subsection 2 above, the Corporation shall pend the transaction. If the Corporation does not receive information that the security is coming to market by the cut-off time on the submission date, the transactions shall be deleted.

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