

May 25, 2006

Mr. Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington DC 20459-0609

Re: Rule Filing (SR-NSCC-2006-04) – Proposed Rule Change Relating to Trade
Submission Requirements and Fees and Pre-Netting

Dear Mr. Katz,

Wedbush Morgan Securities, Inc. (“Wedbush”) appreciates the opportunity to comment on the National Securities Clearing Corporation’s (“NSCC”) recent rule filing. Wedbush has served the investment community for over 50 years, and is a longstanding member of the NSCC, clearing both its own transactions as well as the transactions of its many correspondents. Amongst its correspondent client base, Wedbush is the primary clearing firm for some of the largest high volume electronic trading entities in the country. Over the past four years, Wedbush has developed platforms to accommodate the clearing and processing of millions of transactions each month. Consequently, Wedbush feels it is highly qualified to comment on the impact of the proposed changes. To that end, Wedbush respectfully requests that the SEC reject this proposal in its current form.

General Comments and Concerns

Wedbush has no objection to the principal concerns expressed by NSCC in its recent filing. Nor do we question its intent and motives. However, NSCC, as a member-owned organization, should seek more comprehensive input from its members on all issues impacting the fundamental methods of clearing processes that may have broad and substantial consequences on its member firm’s business activities. NSCC should first discuss and debate its proposals, rates and assumptions with member firms to ensure it has an adequate understanding of what it is proposing and the resulting impact on its members and the market place. We believe NSCC did not do so in this case, and as a

result it has unwittingly submitted a proposal to the SEC that is based on incorrect assumptions and incomplete data.

The analysis performed by the NSCC was based on inaccurate pre-netting assumptions.

NSCC, in an effort to formulate the new rate structure, made certain assumptions as to the number of pre-netted trades using theoretical models that actually proved to be grossly understated. In conjunction with NSCC (after the filing), we jointly compared and analyzed Wedbush's pre-netted activity for sample months. In the process we discovered that the NSCC's pre-netted assumptions were dramatically understated. NSCC believed the proposal would cause no change in clearing charges, but actually it resulted in an increase to Clearing Services and Trade Comparison and Recording charges of more than 70% to Wedbush clients. Given the vast disparity between NSCC's assumptions about this firm's activity and its actual count of pre-netted trades, it stands to reason that NSCC may not grasp the magnitude of the impact their proposed changes will have on its member firms and ultimately investors.

The difference between this firm's actual trade count and the count derived from NSCC's assumptions is so large that it causes us to question whether NSCC has adequately planned for the capacity needed to process the huge increase in transactions that will be submitted if pre-netting ceases. If they have failed to do so, the operational risk to the NSCC clearing system may be far greater than any other risks that NSCC perceives it is mitigating.

NSCC expressed a desire that member firms that pose a greater "risk" to the system bear a correspondingly larger financial burden. Because NSCC considered the proposed fee schedule to be expense neutral to this firm, it must believe that this firm will not create additional systemic risk simply by submitting trades without pre-netting. Nevertheless, because its assumptions about pre-netted volumes are inaccurate, NSCC's proposed fee schedule will actually shift significant expense to those firms that supply a large volume of incremental data, even though the NSCC accepts that they do not cause an increase in the level of systemic risk.

NSCC's proposed rates are not properly structured to allocate charges to firms based on attributable risk.

One of NSCC's stated objectives was to assess member firms appropriately, based on the level of risk that each firm causes the NSCC system. NSCC's "in the net" fee assesses firms based on the price of a particular security traded, irrespective of any other factors pertaining to that security. However, trading high priced securities in and of itself does not constitute additional risk to the system. For example, a security's float, financial condition and legal standing are not necessarily reflected in the trading price of the security, but are still critical components of risk.

In addition, the “in the net” fee does not consider that the overall net position of a member firm may be flat. We believe that transactions resulting in flat positions do not pose any additional risk to the system. However, for arguments sake, if one were to assume that flat positions do pose a level of risk, the manner in which positions are accumulated and covered must be considered. NSCC’s “in the net” fee makes no distinction and instead assesses all activity equally.

Comments on NSCC Rationale

Trade Reconciliation

In its final rationale, NSCC asserts that by receiving trade data real time they will be able to “record, and report to members, trade data earlier in the day, thereby *promoting intra-day reconciliation of transactions at the participant level.*” (Emphasis added.) However, NSCC itself has stated in its “Clearance and Settlement Rule and Fee Changes Q & A”, found on the NSCC website that it “does not have immediate plans to provide real time trade recording output to participants. NSCC will review the requirements and work with participants to *see if this move is feasible* in the near future.” (Emphasis added.) These inconsistent statements invalidate NSCC’s reasoning for this proposal.

Conclusion

NSCC, by eliminating pre-netting and by establishing rates based on incorrect assumptions of pre-netted activity, disproportionately penalizes firms that engage in high volume trading strategies. And yet, it is imperative that NSCC not penalize these firms as they provide depth and liquidity to the market place. These firms greatly assist in providing stability, which is an integral part of providing fair and orderly markets. To institute policies that drive them away would adversely affect the market place and ultimately the investing public.

Wedbush would like to thank the SEC for the opportunity to comment and express our concerns on the NSCC proposal.

Sincerely,

R. James Richards
Executive Vice President