

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-63404; File No. SR-NSCC-2010-16)

December 1, 2010

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Amend Procedure II of the NSCC Rules & Procedures to Modify the Money Tolerance Comparison Provisions for Fixed Income Securities

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder<sup>2</sup> notice is hereby given that on November 19, 2010, the National Securities Clearing Corporation (“NSCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which items have been prepared primarily by NSCC.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The purpose of this proposed rule change is to amend Procedure II (“Trade Comparison and Recording Service”) of the NSCC Rules & Procedures to modify the money tolerance comparison provisions for fixed income securities.

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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> The text of the proposed rule change is attached as Exhibit 5 to NSCC’s filing and is available at [www.dtcc.com/downloads/legal/rule\\_filings/2010/nsc/2010-16.pdf](http://www.dtcc.com/downloads/legal/rule_filings/2010/nsc/2010-16.pdf).

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.<sup>4</sup>

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

**Trade Comparison and Recording Service**

NSCC provides a Real-Time Trade Matching (“RTTM”) service for trade input and comparison of corporate bond, municipal bond, and unit investment trust (collectively “CMU”) fixed income securities. Matching requires that the two trade counterparties submit certain required trade details to RTTM that either match exactly or fall within predefined parameters. If the trade details are matched within RTTM, a valid and binding contract between the submitting trade parties results. If the purchaser and seller submit trade data that matches in all required aspects except for trade value, NSCC uses the seller’s money (referred to as “seller’s value”) as the trade value and deems the trade compared as long as the difference between the seller’s submitted trade value and the buyer’s submitted trade value falls within prescribed dollar values as more fully described below.

Currently, Procedure II of NSCC’s Rules & Procedures provides two scenarios in which trades are compared using the seller’s value. In the first scenario, NSCC will use the seller’s value to match a trade submitted prior to the cut-off time for intraday comparison if the respective trade parties have submitted contract amounts that are within (1) a net \$2 difference for trades of \$1 million or less and (2) \$2 per million for trades greater than \$1 million. In the second scenario, NSCC will also use the seller’s value during the end-of-day enhanced comparison process to match a trade that remained uncomparing after the intraday comparison

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<sup>4</sup> The Commission has modified the text of the summaries prepared by NSCC.

process if the contract amounts are within (i) a net \$10.00 difference for trades of \$100,000 or less and (ii) \$.10 per \$1,000 for trades greater than \$100,000.

### **Proposed Amendments to NSCC Procedure II**

Since the establishment of these CMU money tolerance amounts in 1995, member firms have significantly improved the timing and accuracy of fixed income trade reporting. In 2005, the Municipal Securities Rulemaking Board (“MSRB”) instituted a requirement that firms report trades in municipal securities to the RTTM engine within 15 minutes. This, in turn, required member firms to improve their reporting accuracy and technology. As a result, RTTM is matching a greater percentage of CMU trades upon initial trade input from the buyer and seller.

NSCC believes that because of these improvements, the current money tolerance is wider than needed. NSCC believes that best practices dictates that the money tolerance be modified to reflect current business conditions. Accordingly, NSCC is proposing to amend the CMU money tolerance for the second scenario in which trades are compared using the seller’s value.

Transactions that remain uncomparing after the intraday comparison process shall be deemed compared during the end-of-day enhanced comparison process if the seller’s value has a net \$10.00 difference for trades of \$250,000 or less and \$0.04 per \$1,000 for trades greater than \$250,000. NSCC members will be advised of the implementation date through the issuance of an NSCC Important Notice.

Section 17A(b)(3)(F) of the Act requires, among other things, that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions.<sup>5</sup> The proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to NSCC because it should enhance the efficiency of

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<sup>5</sup> 15 U.S.C. 78q-1(b)(3)(F)

NSCC's clearance and settlement processes and should therefore better enable NSCC to facilitate the prompt and accurate clearance and settlement of securities 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 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

Within forty-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 or disapprove the 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 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](mailto:rule-comments@sec.gov). Please include File Number SR-NSCC-2010-16 on the subject line.

Paper Comments:

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

All submission should refer to File Number SR-NSCC-2010-16. 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 Web site viewing and printing in the Commission's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-1090, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filings will also be available for inspection and copying at the principal office of NSCC and on NSCC's Web site at [http://www.dtcc.com/downloads/legal/rule\\_filings/2010/nsc/2010-16.pdf](http://www.dtcc.com/downloads/legal/rule_filings/2010/nsc/2010-16.pdf). 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-2010-16 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.<sup>6</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>6</sup> 17 CFR 200.30-3(a)(12).