LaBranche Financial Services, Inc. ("LFSI") objects to the Proposed Change to Procedure XV of the National Securities Clearing Corporation's ("NSCC") Rule 4. On or about February 22, 2006, the NSCC made a proposal to the Securities and Exchange Commission (the "SEC") requesting the imposition of a Clearing Fund premium ("Premium") to NSCC broker/dealer and bank Members whose ratio of Clearing Fund requirement (as the numerator), to Excess Net Capital under Rule 15c3-1 ("Capital") (as the denominator) (the "Ratio") is greater than 1.0. The amount of the Premium is determined by multiplying the amount of Clearing Fund requirement, before the premium, in excess of Capital by the Ratio.

Item 4 of the NSCC filing states in pertinent part that the NSCC does not believe that the proposed Rule change will have any impact or impose any burden on competition. In discussion with the NSCC, the NSCC has refused to provide LFSI with the study on which this representation was made. LFSI believes this statement to be false and misleading. The Premium combined with the NSCC's current Clearing Fund requirement would have an impact and impose a burden on competition.

LFSI is one of the smaller clearing firms with about $18 million in excess net capital. A large part of LFSI's business includes providing clearing services on a DVP basis for its own institutional and hedge fund accounts as well as the institutional and hedge fund accounts introduced to it by independent New York Stock Exchange floor brokers. These floor brokers have a meaningful presence in the market place providing efficient execution services to institutional and hedge fund customers, and would not meet the requirements to have their business cleared through larger clearing houses such as Bear, Stearns & Co. ("Bear") and Goldman Sachs & Co. ("Goldman"). Imposing the Premium on top of the existing, recently amended, Clearing Fund requirement could be a triggering event that would force LFSI to terminate clearing the floor brokers' transactions while it would be a non-event for Bear and Goldman with their billions in assets. Either by design or default, the NSCC's rule is anti-competitive and has the potential for creating a monopoly in the clearing business, which would limit participation to two to three giant clearing corporations. In addition, because LFSI's client base of floor brokers would have no alternative broker/dealer to handle their business, their institutional and hedge fund accounts would no longer have that venue to execute their business.

For the reasons as set forth below LFSI believes that the current Clearing Fund requirements are excessive, and taken in conjunction with the proposed Premium would unfairly burden the smaller clearing broker:

- Although the NSCC is affiliated with DTC, the Clearing Fund calculation, prior to the Premium, provides no relief in its daily mark to market requirement for offsetting ID trades submitted to DTC by the broker dealer. This overstates the true open trade risk within the clearing system resulting in an excessive deposit for each broker/dealer.

- If the Clearing Fund daily mark to market calculation results in a negative amount, it is not offset against the other parts of the Clearing Fund calculation, yet

again resulting in an excessive deposit requirement not representative of the true risk within the clearing system.

- The Special charge requirement takes the prior day's open positions and assesses an additional deposit requirement based on current day's market price movement without considering the actions that could close the position for the current day.

- The Premium amplifies the already excessive Clearing Fund requirements and unfairly impacts small firms.

Further, the manner in which the NSCC proposes to handle this Premium is flawed in its application. The following representations by LFSI are based on information obtained from the Staff of the NSCC in a meeting held to clarify the purpose and/or manner in which the NSCC intends to implement the Rule change.

- In a meeting with the NSCC it was learned that the NSCC plans to determine the Premium amount and notify the Member of the requirement between 11:00 a.m. to 2:00 p.m. giving the Member less than two hours to infuse what could be a significant additional deposit requirement, especially for a smaller firm, to meet by the close of the trading day.

- Using the Excess Net Capital as defined by Rule 15c3-1 of the Securities Exchange Act of 1934 as the denominator in the Ratio penalizes the broker/dealer for the same risk twice since the required Rule 15c3-1 haircuts for securities positions are already deducted from the brokers/dealer's capital to arrive at Excess Net Capital. We suggest that the broker dealer's tentative net capital, before haircuts, be used as the denominator in the equation.

For all of the reasons stated, above, LFSI believes the NSCC should be prevented from imposing this Premium on the market place and in particular on smaller clearing firms as it is anti-competitive and seeks to defeat one of the tenants that the Securities and Exchange Commission espouses which is that a wide range of people should participate in the market adding execution venues and not be denied their opportunity to participate in shaping the American economy.

Given the complexities involved, we believe that the effect of this proposed rule on competition in combination with the existing Clearing Deposit requirements mandates thorough review beyond the 23-day comment period, and prior to adoption. This review should include a study into other solutions to mitigate risk in the clearing system that would not have an onerous impact on smaller clearing firms and would include developing a general fund to mitigate undue risk to the system similar to the SIPIC or FDIC models. We request the opportunity to meet with you on this matter.

Respectfully,
Thomas Patterson – Chief Executive Officer – LaBranche Financial Services, Inc.
Kathleen M. Toner, Esq. – Chief Regulatory Officer-LaBranche & Co Inc.