



**WEDBUSH MORGAN
SECURITIES**

Investment Bankers for Entrepreneurs

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November 10, 2006

Mr. Jonathan Katz, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

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 (“Wedbush”) would like to thank the Commission for allowing us to respond to the rebuttal letter submitted by National Securities Clearing Corporation (“NSCC”) on August 18, 2006.

There were certain comments and misrepresentations offered in NSCC’s rebuttal, which were directed toward Wedbush, to which Wedbush feels compelled to respond.

Whereas Wedbush had at all times assumed that NSCC was operating with good intentions, as we stated in our original comment letter, the nature of their rebuttal letter, and comments contained therein, has caused us to question their motives as to whether NSCC is interested in reaching the best solution to its stated objectives or simply its own solution.

In NSCC’s rebuttal letter Section III, Argument A, NSCC cites Wedbush’s position as (i) that it does not believe NSCC fully grasps the impact of compression in the marketplace, (ii) that NSCC’s proposal was based on incorrect

assumptions, and (iii) that Wedbush doubts the “validity of NSCC’s assumption that compression will result in only 30% more transaction volume.” While it is correct to say that Wedbush certainly questions the validity of the assumptions, our response was based exclusively on information provided to us by NSCC, pertaining to Wedbush business activity and not the marketplace as a whole. NSCC has not, to date, seemed interested in sharing that analysis with its member firms, at least not with us. What is clear is that NSCC told Wedbush it expected there to be *no net change* in Wedbush’s fees based on its analysis and assumptions used, when in actuality there was a net increase of over 70% in Clearing Services and Trade Comparison and Recording. Any reasonable party could only extrapolate that the assumptions used by NSCC were erroneous; and that if they were erroneous in connection to Wedbush, they may therefore be erroneous in connection to the industry at large. While no clearing firm, Wedbush included, wants to see its costs increase, what is at issue in this case is that NSCC has proposed rule and rate changes which can only appear to have stemmed from insufficient data and assumptions that were limited in scope.

Further, NSCC asserts that Wedbush “failed to provide any information to substantiate its claim.” In fact, Wedbush and NSCC jointly analyzed the Wedbush activity, and both parties concurred that there would be a substantial, unexpected increase in charges. Consequently, there would have been no reason to further substantiate the claim to NSCC; and to provide the requisite comparisons, analyses and records in a comment letter to the Commission is an inappropriate forum in which to do so. Despite very short notice, Wedbush had been in constant communication with NSCC just prior to and after its submission to the SEC on March 15, 2006, (both telephonically and by e-mail), and at all times believed that NSCC would modify its proposal based on the conclusions derived from the parties’ joint efforts. In addition, Wedbush invited NSCC to meet and discuss the disparities, and possible solutions, at Wedbush’s offices in Los Angeles. NSCC initially agreed to the meeting, but later opted to postpone the meeting until after it could submit its rebuttal letter to the SEC.

In light of the above, Wedbush objects to the implication that the only way NSCC’s assumptions could be inaccurate is if Wedbush or other firms are “not only compressing like-sided transaction data, but also pre-netting buy versus sell side trade data.” To hold such a position presumes that NSCC is infallible. Perhaps the only thing that is being implied is that NSCC’s assumptions were incorrect. Wedbush does not “pre-net buy versus sell side trade data,” and is not aware of any other clearing firm engaged in such practices. NSCC itself states on page 2, footnote 9 of the same rebuttal letter that “NSCC is not aware that firms are actually netting opposite-sided trades by clearing broker.” Therefore, it is disingenuous for NSCC to offer this as an “additional risk issue,” and any such attempt can only be interpreted as a red herring.

Further, Wedbush along with Automated Trading Desk, LLC, BNY Brokerage, Inc., Citadel Execution Services, Knight Capital Group, Inc., and UBS Securities, LLC (“Group”) met with NSCC to offer assistance with its analysis, as well as assistance in determining alternatives of reaching its stated objectives. It was our collective expectation that NSCC was genuinely interested in such dialogue; however, this apparently has proved to not be the case.

As a consequence, the above Group met with Robert Colby, Acting Director, Division of Market Regulation, and other members of the Commission on September 8, 2006. We are grateful at the opportunity to have met with them. It was evident that the Commission had a genuine interest in our collective concerns and the potential market impact of the proposed NSCC rule filing.

In that meeting we pointed out several areas that we felt NSCC did not address, or address adequately, in their submission and subsequent reply. Among them were how NSCC believes risk is mitigated through the elimination of compression, and NSCC’s failure to credibly speak to legitimate questions concerning the veracity of the assumptions used, as well as other issues and questions brought out by the Group and the Commission itself. In addition, NSCC has further failed to address the following matters of even greater consequence:

- Market structure impact.
- Increased transaction cost to the public.

NSCC stated in its rebuttal letter on Page 16, Item K, that “any burden on competition that the proposed prohibition of pre-netting could be regarded as imposing is neither unreasonable, nor inappropriate, given the clear and substantial benefits such requirements will yield.” We could not disagree more, especially in light of new technologies that offer cost effective means to continuously assess risk, as well as assuage business continuity issues. In fact, we feel it is incumbent upon NSCC to ensure that its proposals don’t adversely affect the overall market structure. Competition between ECNs and Exchanges is a critical component to the health and the vibrancy of our markets. ECNs will be negatively impacted by this proposal. While it is not known to what extent this may affect ECNs’ business models, or the effects to the marketplace thereafter, it is paramount that NSCC analyze and fully understand those effects prior to submission of any proposal. Competition amongst market venues has resulted in lower transaction costs to the trading public, which in turn has increased liquidity in the market, reduced volatility, and thus reduced trading costs. We don’t believe this issue is one to be lightly dismissed.

It is our primary intent through this correspondence to add at least a modicum of clarity to certain comments expressed by NSCC in its rebuttal letter to the

Commission on August 18, 2006. To that extent we hope we were successful. Nevertheless, we remain open to discuss this correspondence, and or NSCC's proposal in general, with the Commission.

Again, we would like to thank the Commission for the opportunity to respond to NSCC's rebuttal letter.

Sincerely,



R. James Richards,
Executive Vice President

Cc: Robert Colby, Securities Exchange Commission
Steve Swanson, Automated Trading Desk, LLC
Barclay Frey, BNY Brokerage
Neil Fitzpatrick, Citadel Execution Services
Len Amoruso, Knight Capital Group
Linda Lord, UBS Securities