

October 6, 2006

Robert Colby
Deputy Director, Division of Market Regulation
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: SR-NSCC-2006-04

Meeting with Automated Trading Desk, BNY Brokerage, Citadel Execution Services, Knight Capital Group, UBS Securities, and Wedbush Morgan Securities on Friday, September 8, 2006.

Dear Mr. Colby:

Automated Trading Desk, BNY Brokerage, Citadel Execution Services, Knight Capital Group, UBS Securities, and Wedbush Morgan Securities would like to take this opportunity to thank you and your staff for our meeting on Friday, September 8, 2006 to discuss the National Security Clearing Corporation's proposed filing SR-NSCC-2006-04. As you noted from our meeting, this is a very important matter to these firms, and to the markets as a whole. We wanted to take this opportunity to reaffirm our interest in helping the SEC in making an informed decision with respect to this proposal. Further, we believe that our firms are able to offer valuable insight into the market affects of the proposal, as well as to potential alternatives.

As we noted at the meeting:

- 8 Comment Letters were received on NSCC's proposal
 - 3 NSCC member firms
 - 5 non member firms
- All comment letters oppose elimination of compression
- Compression provides benefits to markets and to market participants
 - NSCC seeks to eliminate established practices through rule-making
 - Compression is a lawful practice developed through operational and technological efficiencies
 - It is not place of NSCC to favor one market segment over another
- Compression reduces the transaction cost to the public

- Market Structure Impact
 - Causes fragmentation of the market
 - Creates an advantage for exchanges through print revenue and use of RIO system
 - Likely to cause competition in clearing corporations
 - Likely to stifle innovation and competition in the market

- NSCC is focused on the impact to its members, not to the market as a whole

- NSCC has been given viable alternatives, but the NSCC has never responded in a thoughtful manner
- The impact to the industry will be on the whole chain of clearing:
 - Clearing Firms (NSCC members)
 - Broker-Dealer (correspondents)
 - Service providers (back-office, data processing, etc.)
 - Without understanding effect at each level, it is impossible to do a proper analysis of the impact of the proposal
- Many questions were raised regarding the NSCC's analysis of the impact of the proposal, the manner in which it was proposed/discussed with their members, and the sharing of such information with other market participants (as well as the SEC)

Further, we understand that the SEC would like to develop additional information regarding the following matters:

1. What exactly is compression? What is pre-netting?
 - a. Currently, companies are compressing trades – same stock, same side of the market and same counterparty.
 - b. Generally, the firms listed do not believe that firms are pre-netting – combining buys and sells.
2. What about intraday information?
 - a. Firms suggested submitting real time data for disaster recovery purposes, but continue to clear on same basis with end of day compression. Data not needed for disaster recovery or business continuity reasons could be deleted at the end of the day.
 - b. Important to note that both Introducing Brokers and Clearing Firms maintain their own Business Continuity Plans in accordance with requirements stipulated by the NASD/NYSE.
3. What is the volume of trades being discussed?
 - a. NSCC is not aware of the volume of trades. Nasdaq and many ECNs have significantly more trading than thought. In analysis of Wedbush trading activity, NSCC significantly underestimated the amount of trades being done on ECNs.
4. How much compression is going on?
 - a. Ninety percent (90%) of compression takes place on non-exchange ECNs. All trade with QSRs and the ECNs submit the compressed trades for the trading firms.
5. How much trading are ECNs doing with one another?
 - a. Need to talk to them to find out.
6. Anonymity of trading?
 - a. The new non-compression structure would significantly reduce anonymity.

7. Cost increases?
 - a. The downstream effect of the elimination of compression is significant, especially for those firms with fixed contracts in place for third party back office functions, i.e. SIAC, ADP, etc. Renegotiating those contracts would be even more difficult than renegotiating the clearing contracts.

8. How can intraday risk be managed?
 - a. Drop copy technology
 - b. Process compressed trades
 - c. Decouple risk from trading
 - d. Clearing firms define risk parameters and monitor throughout day

9. NSCC wants to be at the point where clearing deposits can be varied during day to take into account risk of positions. How is that done?
 - a. Must be very sophisticated system.
 - b. Elimination of compression does not achieve this goal.
 - c. Fees don't correlate to costs of monitoring real-time data.
 - d. Adjustments for holding of hedged positions across asset classes would not be reflected at NSCC.
 - e. NSCC would not be aware of order book of brokers (e.g. institutional-sized orders handled on a riskless principal or agency basis)

All of the above named firms [and those that have signed below] are dedicated to helping achieve risk reduction in today's marketplace. However, we believe that the NSCC's proposal is an unnecessary burden on competition, and will not achieve its intended goals. Rather, it will increase complexity in clearing, reduce transparency in the markets, and, as an end result, increase the cost of trading for the retail investor. Moreover, there are viable alternatives to the proposals which will not have the same negative effects. We stand ready to work with the NSCC on alternatives that meet the NSCC's stated objectives, but that also minimize the negative collateral impact on the marketplace.

Again, on behalf of all the listed firms, we appreciate this opportunity to present our views on the above-referenced matter, and would be happy to discuss any of these items with you at your convenience.

Sincerely,



Steve Swanson
President and CEO
Automated Trading Desk, LLC

cc: Deborah Howard, Automated Trading Desk
Barlcay Frey, BNY Brokerage
Neil Fitzpatrick, Citadel Execution Services
Len Amoruso, Knight Capital Group
Linda Lord, UBS Securities
Wendy Rea, Wedbush Morgan Securities