



NATIONAL  
SECURITIES  
CLEARING  
CORPORATION  
RULES & PROCEDURES

TEXT OF PROPOSED RULE CHANGE

**Underlined and boldface** text indicates new text

**~~Strikethrough and boldface~~** indicates deleted text

## RULE 7. COMPARISON AND TRADE RECORDING OPERATION

### (INCLUDING SPECIAL REPRESENTATIVE/INDEX RECEIPT AGENT)

SEC.1. A Member may submit to the Corporation for comparison or for trade recording, trade data on any transaction calling for delivery of Cleared Securities between it and another person. The Corporation will, in accordance with this Rule and the Procedures, handle the comparison of transactions reflected in trade data so submitted to it.<sup>1</sup>

#### SEC. 2. Special Representatives

(a) For the purposes of these Rules, a “Special Representative” shall be either a Member or a Registered Clearing Agency which applies to the Corporation for such status and designates those Members for which it will act. The Corporation will not act upon any instruction received from a Special Representative which applies pursuant to this paragraph until each Member for which the Special Representative proposes to act has consented thereto in a writing delivered to the Corporation.

(b) A Special Representative may submit to the Corporation transaction data, ~~which may reflect the netted results of other transactions,~~ as to the rights and obligations of Members which calls for the delivery of Cleared Securities and is between Members, notwithstanding the fact that the rights and obligations do not represent transactions compared under this Rule. The obligations of the Member reflected in such transaction data shall be deemed to have been confirmed and acknowledged by each Member designated by the Special Representative as a party thereto and to have been adopted by such Member and, for the purposes of these Rules and determining the rights and obligations between the Corporation and any such Member under these Rules shall be valid and binding upon such Member to the same extent as any transaction compared under this Rule and shall be deemed to be transactions compared under this Rule. A Member which has been so designated by a Special Representative shall resolve any differences or claims regarding the rights and obligations reflected in the transaction data submitted by the Special Representative with the Special Representative, and the Corporation shall have no responsibility in respect thereof or to adjust its records or the accounts of the Member in any way, otherwise than pursuant to the instructions of the Special Representative.

#### SEC. 3. Qualified Special Representatives

(a) For the purposes of these Rules, a Qualified Special Representative is a Special Representative who:

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<sup>1</sup> At such time as each exchange and/or marketplace assumes responsibility for trade comparison for transactions executed on or subject to the rules of such exchange and/or marketplace, the Corporation will cease providing comparison services for such transactions.

(1) operates an automated execution system where it is always the contra side to each transaction; or

(2) has a parent corporation or affiliated corporation that operates an automated execution system where the Special Representative is always the contra side to each transaction; or

(3) clears for a broker/dealer who operates an automated execution system where the broker/dealer is always the contra side to each transaction, and the subscribers to the automated execution system enter into an agreement with the broker/dealer and the Special Representative acknowledging the Special Representative's role in the clearance of trades executed on the automated execution system.

(b) A Qualified Special Representative may submit to the Corporation in automated form trade data from such automated execution system as locked-in trades. **All such trades must be submitted on a trade-by-trade basis in the actual form executed with original trade terms unaltered. The obligations of the Member reflected in such trade data as the Qualified Special Representative's contra-party shall be deemed to have been confirmed and acknowledged by each Member designated by the Qualified Special Representative as the contra party thereto and to have been adopted by such Member and, for the purposes of these Rules and determining the rights and obligations between the Corporation and any such Member under these Rules, shall be valid and binding upon such Member to the same extent as any transaction compared under this Rule. A Member which has been designated as the contra-party to a trade by a Qualified Special Representative shall resolve any differences or claims regarding the rights and obligations reflected in the trade data submitted by the Qualified Special Representative with the Qualified Special Representative, and the Corporation shall have no responsibility in respect thereof or to adjust its records or the accounts of the Member in any way, other than pursuant to the instructions of the Qualified Special Representative.**

#### SEC. 4. Index Receipt Agent

(a) For the purposes of these Rules an Index Receipt Agent shall be a Member which has entered into an Index Receipt Authorization Agreement as required by the Corporation from time to time.

(b) An Index Receipt Agent may submit to the corporation transaction data, which may reflect the netted results of other transactions, as to the rights and obligations of Members which calls for the delivery of cleared securities and is between Members, notwithstanding the fact that the rights and obligations may not represent transactions compared under this rule. The obligations of the Member reflected in such transaction data shall be deemed to have been confirmed and acknowledged by each Member or designated by the Index Receipt Agent as a party thereto and to have been adopted by

such Member and, for the purposes of these Rules and determining the rights and obligations between the Corporation and any such Member under these Rules shall be valid and binding upon such Member to the same extent as any transaction compared under this Rule and shall be deemed to be transactions compared under this Rule.

SEC. 5. Trade data submitted to the Corporation by a Member pursuant to Section 1 of this Rule or by a Qualified Special Representative pursuant to Section 3 of this Rule, and transaction data submitted to the Corporation by a Special Representative or Index Receipt Agent pursuant to Section 2 or 4 of this Rule, as applicable, shall be submitted in the form and manner, and in accordance with the time schedules, prescribed by, or pursuant to, the Procedures.

The name of a Member, Special Representative, Qualified Special Representative or Index Receipt Agent printed, stamped or written on any form, document or other item issued by him or used in a transmission received from him pursuant to this Rule or the Procedures shall be deemed to have been adopted by him as his signature and shall be valid and binding upon him in all respects as though he had manually affixed his signature to such form, document or other item or transmission.

Each Member, Special Representative, Qualified Special Representative and Index Receipt Agent shall promptly check all information in any format that is made available to him by the Corporation pursuant to this Rule or the Procedures.

Any trade data submitted to the Corporation by a Member pursuant to Section 1 of this Rule which is not compared by the Corporation, or any such item compared by the Corporation which is subsequently deleted as provided in the Procedures and not later compared, or any transaction data received by the Corporation which is subsequently deleted as provided in the Procedures shall be adjusted directly between the parties.

Balance Order Contracts produced in accordance with the Procedures on the basis of trade data submitted by Members or Qualified Special Representatives pursuant to Section 1 or 3, as applicable, of this Rule or transaction data submitted by Special Representatives and Index Receipt Agents pursuant to Section 2 or 4, as applicable, of this Rule will, as specified in the Procedures, either (i) be entered in the Balance Order Accounting Operation or (ii) be excluded from the Balance Order Accounting Operation in which case appropriate receive and deliver security orders will be issued by the Corporation in connection therewith and such security orders shall have the same status as security balance orders issued in connection with the Balance Order Accounting Operation and will be subject to all Rules pertaining to such security balance orders unless otherwise specified by the Corporation.

CNS Contracts produced in accordance with the Procedures on the basis of trade data submitted by Members or Qualified Special Representatives pursuant to Section 1 or 3, as applicable, of this Rule or transaction data submitted by Special

Representatives and Index Receipt Agents pursuant to Section 2 or 4, as applicable, of this Rule will be entered in the CNS Accounting Operation for settlement as provided in the Procedures and shall be subject to Rule 11.

Foreign Security Contracts produced in accordance with the Procedures on the basis of trade data submitted pursuant to this Rule will be entered in the Foreign Security Accounting Operation as provided in the Procedures.

Notwithstanding the foregoing, Special Trades in Balance Order Securities and CNS Securities shall not enter the Accounting Operation, but will instead be subject to the provisions of Section 9 of Rule 11.

SEC. 6. The Corporation may determine, in its discretion, to accept, from self-regulatory organizations, as defined in the Securities Exchange Act of 1934, and/or derivatives clearing organizations that are registered or deemed to be registered with the Commodity Futures Trading Commission pursuant to the Commodity Exchange Act (either directly or through subsidiary or affiliated organizations<sup>2</sup>) and/or service bureaus, initial, or supplemental trade data on behalf of Members for input into the Corporation's Comparison Operation or compared trade data, **on a trade-by-trade basis which may reflect the netted results of other transactions**, on behalf of Members for input into the Corporation's Accounting Operation provided that a Member is a party to the trade or transaction. Such data shall be in a form acceptable to the Corporation, in its discretion, and within such time frames as the Corporation may, in its discretion, require. The Corporation shall deem the report of any such data by any such organization to have been authorized by the Member on whose behalf the data shall have been reported. Data reported by any such organization(s) to the Corporation shall not be deemed to be reported by the Member to the Corporation until such data is accepted by the Corporation.

A determination by the Corporation to accept data from such organization(s) on behalf of a Member shall not be deemed to be an approval of such organization(s), or an assumption by the Corporation of any responsibility or liability for such organization's operation or failure to operate, which shall remain solely between the Member and such organization(s). The Corporation shall be entitled to rely upon any data so submitted without inquiry into the accuracy or validity of such data. It shall be the responsibility of the Member to take appropriate corrective action to resolve any differences resulting from the submission of incorrect data to the Corporation. Acceptance by the Corporation of data from such organization(s) shall not relieve the Member from, or alter, amend or modify, any obligations of the Member pursuant to the Corporation's Rules.

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<sup>2</sup> This may include a trade reporting facility that: (i) is affiliated with, and is operated as a facility of, a self-regulatory organization (SRO), and (ii) the rules and operations of which are the subject of a rule change of the SRO that has been duly filed with the Securities and Exchange Commission and is effective.

The Corporation may determine, in its discretion, to provide comparison services for participants of any such self-regulatory organization(s), who are not Members of the Corporation, under such terms and conditions which the Corporation, in its discretion, may determine are appropriate or necessary.

**SEC. 7. All trade data submitted to the Corporation for trade recording pursuant to Sections 3(b) or 6 of this Rule shall be submitted on a trade-by-trade basis, in the form executed without any form of “pre-netting” of such trades prior to their submission. The Corporation shall deem any form of trade summarization, compression, or other form of netting or practice that combines two or more trades prior to their submission to the Corporation, or any practice or action designed to contravene this prohibition, as a violation of this Rule<sup>3</sup>, and this prohibition shall apply to any Member (including any Special Representative or Qualified Special Representative) that, directly or indirectly, engages in such pre-netting.**

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<sup>3</sup> **Trades executed in the normal course of business between a Member that clears for other broker/dealers, and its correspondent, or between correspondents of such Member, which correspondent(s) is not itself a Member and settles such obligations through such clearing Member (“internalized trades”) are not required to be submitted to the Corporation and shall not be considered to violate the pre-netting prohibition of this Rule.**

## PROCEDURE II. TRADE COMPARISON AND RECORDING SERVICE

### A. Introduction

Trade Comparison is the first step in the clearance and settlement of securities transactions. It consists of reporting, validating and matching the buy and sell sides of a securities transaction and results in a compared trade. Trade data submitted by Self-Regulatory Organizations and Qualified Special Representatives on behalf of Members as permitted in this Procedure II is submitted on a locked-in basis for Trade Recording, and is converted (if necessary), validated, recorded and reported to Members. Except as specified below, compared and recorded trades are then entered into the CNS Accounting Operation, the Foreign Security Accounting Operation, or the Balance Order Accounting Operation.

**All locked-in trade data submitted by Self-Regulatory Organizations and Qualified Special Representatives for recording pursuant to this Procedure II must be submitted Real-time, as that term is defined in Procedure XIII.**

Compared and recorded trades are routed to either the CNS Accounting Operation, the Balance Order Accounting Operation, or the Foreign Security Accounting Operation. Separate Trade Comparison and Recording is provided for regular way and when-issued and when distributed transactions in equity securities (a) executed on securities exchanges, and (b) traded in the Over-the-Counter (OTC) market. Separate Trade Comparison and Recording is also provided for debt securities, including when issued and when-distributed transactions, for transactions in all marketplaces.<sup>1</sup>

[NO CHANGES TO REMAINDER OF PROCEDURE II]

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<sup>1</sup> At such time as each exchange and/or marketplace assumes responsibility for trade comparison for transactions executed on or subject to the rules of such exchange and/or marketplace, the Corporation will cease providing comparison services for such transactions.

## PROCEDURE IV. SPECIAL REPRESENTATIVE SERVICE

### A. Introduction

A Special Representative which has been authorized by one or more other persons to act on their behalf, may submit transactions in securities to the Corporation.

The Special Representative submits a transaction which is treated by the Corporation in the same manner as if both parties had agreed to the details of the transactions. Transactions entered by Special Representatives may enter the Accounting Operation.

### B. Institutional Clearing Service

The Institutional Clearing Service is a means by which a broker/dealer Member can clear its customer-side activity through the accounting systems offered by the Corporation when the customer is a Member or institutional participant of a Qualified Clearing Agency.<sup>1</sup>

The Institutional Clearing Service utilizes the institutional clearing and delivery services operated by various Qualified Clearing Agencies for input and affirmation purposes. Transactions which are affirmed through these systems and which are between a broker/dealer Member and customer Member or institutional participant of a Qualified Clearing Agency, as principal or agent, are then entered to the Accounting Operation for purposes of delivery and settlement. The Qualified Clearing Agency is the Special Representative in the Institutional Clearing Service.

The broker/dealer Member submits input to the institutional system in accordance with the rules and/or procedures of the Qualifying Clearing Agency. After the agent bank or institutional participant affirms the transaction, the transaction is removed from the institutional system and entered as a compared trade into the CNS Accounting Operation or Balance Order Accounting Operation as a transaction between (a) the broker/dealer and (b) the customer Member.

If the customer is not a Member or elects not to clear transactions through this Service, the broker/dealer-side of the transaction is removed from the institutional system and entered into the CNS Accounting Operation or the Balance Order Accounting Operation. The customer clears the transaction through the institutional system according to the rules and/or procedures of the Qualified Clearing Agency involved.

### C. Correspondent Clearing Service

The Correspondent Clearing Service permits Members to clear and settle transactions executed for them by other Members acting as their Special Representative in the following situations: first, to accommodate a Member with multiple affiliate accounts who wishes to move a position resulting from an "original trade" in the process of clearance

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<sup>1</sup> For the purposes of this procedure, a Qualified Clearing Agency shall include an entity that performs institutional trade matching and confirmation services that has received an exemption under the Securities Exchange Act of 1934, as amended, to register as a clearing agency.



from one affiliate account to another, and second, to accommodate a Member that relies on its Special Representative to execute a trade in any market on its behalf to enable the resulting position to be moved from the Special Representative to that Member.

Through the Correspondent Clearing Service, the Special Representative offsets trades that it has executed on behalf of the Member, which are in the process of clearance and settlement (“original trades”)<sup>2</sup> by inputting transaction data as described below.

The Member functioning as a Special Representative submits transaction data to the Corporation. For example, if the original trade is a purchase order, the Special Representative inputs a transaction where it is the seller, and the Member is the purchaser. The Member agrees to be bound by the details of all transactions submitted on its behalf by the Special Representative. Any errors or omissions must be resolved directly between the Member and the Special Representative. Corrective input may be submitted to the Corporation by the Special Representative on a subsequent day.

The Corporation produces reports for both the Special Representative and the Member. These reports identify the details of each transaction as submitted by the Special Representative and identifies any transactions which have not been accepted by the Corporation.

Transactions (other than cash, or next day fixed-income transactions, or cash equity transactions received after the Corporation’s designated cut-off time) which are accepted by the Corporation are then entered into the Balance Order Accounting Operation or CNS Accounting Operation (pursuant to Procedure V and VII) which, when processed through the Balance Order Accounting Operation or CNS Accounting Operation, effectively net the Special Representative out of the original trade.

The Correspondent Clearing Service is not intended, and therefore may not be utilized, by Special Representatives for the purpose of submitting original locked-in trade input, **as all such input shall be submitted pursuant to Procedure II hereof (whether acting in their capacity as Qualified Special Representative, or otherwise)**. This prohibition shall apply to any Member, including any Special Representative or Qualified Special Representative that, directly or indirectly, engages in such activity.

#### D. Qualified Special Representatives

A Qualified Special Representative is a Special Representative who meets the requirements set forth in Rule 7. As such, and subject to the requirements of Rule 7 and as otherwise set forth in these Rules, a Qualified Special Representative may submit locked-in trades (pursuant to Procedure II above) for other Members and/or their correspondent.

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<sup>2</sup> The term “original trade” is used solely to distinguish between trades executed in the marketplace, and trades booked for accounting purposes to accommodate the movement of positions between Members as permitted in this Procedure.

E. Automated Special Representative Facility

The Corporation may determine, in its discretion, to provide an automated facility through which Members may establish and ultimately retire their Special Representative relationships. A Member may appoint another Member as its Special Representative through the automated facility, and that Member must then consent to via the automated facility to acting in such capacity (or *vice versa*).

The establishment of such relationships through the automated facility shall meet the written notice requirements for such services as otherwise set forth within these Rules and Procedures. Members agree to be bound by the details of all transactions submitted on their behalf by the Special Representative, and any errors or omissions or disputes relating to such relationships and related transactions must be resolved directly between the parties.

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### PROCEDURE XIII. DEFINITIONS

Clearing Center - A branch facility of the Corporation.

CNS Stock Record - The CNS System accounting of all CNS Securities owed to and by the Corporation which operates on a perpetual inventory basis providing each Member a single long or short position per CNS Security.

Contract - A Balance Order Contract or CNS Contract.

Contract List – Reports and/or output prepared by the Corporation showing compared trades, uncomparing trades and advisory data.

Contract Money - The unit price of the securities traded multiplied by the quantity of securities traded or the stated value agreed to by both parties to the trade.

Current Market Value - The number of units of a security multiplied by the Current Market Price per unit.

Current Position - The long or short position of a Member in the CNS Stock Record at any time or, when the term is used in a report or statement to a Member, at the time the report or statement is prepared.

Designated Depository - The Qualified Securities Depository designated by a Member.

ESS - The Envelope Settlement Service provided for under Section 1 of Rule 9.

IESS - The Intercity Envelope Settlement Service provided for under Section 2 of Rule 9.

Non-Participant - A participant in a Qualified Clearing Agency who is not a Member.

NYSE - New York Stock Exchange LLC.

NYSE Alternext – NYSE Alternext US LLC.

OCC - The Options Clearing Corporation.

OTC - The over-the-counter securities market.

Primary Clearing Center - The Clearing Center designated as such by a Member.

Qualified Clearing Agency - A Registered Clearing Agency which has entered into an agreement or agreements with the Corporation pursuant to which transactions submitted to the Corporation or the Registered Clearing Agency may be transferred to the other for comparison and/or settlement.

**Real-time – The term “Real-time”, with respect to the submission of trade data to the Corporation, means the submission of trade data on a trade-by-trade basis**

**promptly after trade execution, in any format and by any communication method acceptable to the Corporation.**

Security - A cleared security.

SIAC - Securities Industry Automation Corporation

T - T denotes the day on which the trade occurred. T+1 is the next business day, and so on. T+3 is normally the Settlement Day.

when-issued transaction - Typically, a transaction in a security which has occurred prior to the issuance of such security and is determined to be a when-issued transaction by the marketplace or exchange on which it trades.

when-distributed transaction - Typically, a transaction in a security which has occurred prior to the initial distribution of such security and is determined to be a when-distributed transaction by the marketplace or exchange on which it trades.

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ADDENDUM N

(ADDENDUM HEADER RESERVED FOR FUTURE USE)

**INTERPRETATION OF THE BOARD OF DIRECTORS  
LOCKED-IN DATA FROM QUALIFIED SPECIAL REPRESENTATIVES**

~~Pursuant to Rule 47, the Board of Directors has the authority to interpret the Rules of the Corporation. The purpose of this interpretation is to clarify certain provisions of the Corporation's Procedure II.B.2 ("Procedure") regarding the submission to the Corporation of locked-in trade data from Qualified Special Representatives on trade date plus one ("T+1").~~

~~It is expected that Qualified Special Representatives will have sufficient capability and systems which will enable them to submit locked-in trade data on T. The Corporation acknowledges that, in practically all instances to date, the T submission deadline has been met. The Corporation recognizes, however, that there may be circumstances which preclude Qualified Special Representatives from submitting part or all of their locked-in trade data on T. In these cases, to avoid requiring Members on whose behalf a Qualified Special Representative acts, to submit data to the Corporation, the Corporation has provided a capability to accept from Qualified Special Representatives locked-in trade data submissions on T+1. However, it is the Corporation's desire that comparison be accomplished as early as possible. The Corporation does not intend that Qualified Special Representatives submit locked-in trade data, on a routine basis, on T+1. Submissions on T+1 are expected to occur only in the event of extraordinary circumstances.~~

~~The Corporation intends to periodically monitor the submission of locked-in trade data by Qualified Special Representatives. The Corporation may require a Qualified Special Representative to submit a written explanation for any T+1 submission. If the Corporation, in its sole discretion, determines that a Member is inappropriately using the T+1 submission facility, the Corporation may send an advisory notification to the Qualified Special Representative's Designated Examining Authority, if any, and to the Securities and Exchange Commission. If the Qualified Special Representative continues to inappropriately use the T+1 submission facility, the Corporation may determine to limit the Qualified Special Representative's right to continue to submit such locked-in trade data.~~

~~This interpretation shall also be applicable to Service Bureaus which submit locked-in trade data to the Corporation.~~