



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 acting as a Special Representative or Qualified Special Representative, may submit to the Corporation for trade recording, trade data on any transaction calling for delivery of Cleared Securities between it and another person. A Member may also submit to the Corporation for comparison trade data on any transaction calling for delivery of Cleared Securities that are also debt securities between it and another person, or for other transactions as otherwise provided through the Obligation Warehouse service in accordance with Rule 51 and Procedure II A.

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 as to the rights and obligations of Members which calls for the delivery of Cleared Securities and is between Members. 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 Compared Contract 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:

(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. 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 Compared Contract 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 organizations¹) and/or service bureaus, initial, or supplemental trade data on behalf of Members for trade recording and input into the Corporation's Comparison Operation (with respect to debt securities) or compared trade data, ~~on a trade-by-trade basis~~ 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.

SEC. 7. All trade data submitted to the Corporation for trade recording pursuant to Sections **2(b)**, 3(b) or 6 of this Rule shall be submitted **in Real-time, as that term is defined in Procedure XIII of these Rules, and** on a trade-by-trade basis, in the form

¹ 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.

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 Rule², 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.

Trade data submitted to the Corporation for trade recording pursuant to Section 2(b) of this Rule is not subject to the requirements of this Section if (1) the counterparty to that trade is an Affiliate, as defined in Rule 4A, of the submitting firm on the Corporation’s records at the time the trade data is submitted; or (2) the trade data is submitted to facilitate a position movement between two unaffiliated clearing brokers on behalf of a common client for custody purposes (“Client Custody Movements”).

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² ~~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. Except with respect to certain transactions eligible and submitted for processing through the Obligation Warehouse service and provided under these Rules & Procedures, Trade Comparison for transactions in equity securities occurs outside of the Corporation through the facilities of relevant Self-Regulatory Organizations and/or Qualified Special Representatives. The Corporation may provide Comparison services with respect to transactions in debt securities. 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 **to the Corporation** by Self-Regulatory Organizations, **and** Qualified Special Representatives **and Special Representatives** for recording pursuant to this Procedure II must be submitted **in Real-time**, as that term is defined in Procedure XIII **and on a trade-by-trade basis, in the form executed without any form of pre-netting of such trades prior to their submission. Trades submitted by Special Representatives for which the counterparties are Affiliates, as defined in Rule 4A, and Client Custody Movements, as defined in Section 7 of Rule 7, are not subject to the requirements of this paragraph.**

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 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.¹

B. Equity and Listed Debt Securities -- Locked-In Trade Input

(i) Recording of Regular-Way Transactions

¹ 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.

Self-Regulatory Organizations and Qualified Special Representatives on behalf of Members (as applicable) may submit to the Corporation trade data relating to regular way transactions in securities executed on securities exchanges or OTC marketplaces. Regular-way trade data may be submitted throughout T ("trade date") until the time specified by the Corporation (hereinafter referred to as "Original Trade Input"), and shall include quantity, security identification, identification of the marketplace of execution, contra-broker, trade value and other identifying details as the Corporation may require or permit.

Regular-way trade data as submitted by Self-Regulatory Organizations and Qualified Special Representatives on behalf of Members ("Locked-in Trade Data") is converted, if necessary, and validated. Results of this process are reported by the Corporation to Members ~~on a real-time~~ on such reports and in such formats as determined by the Corporation from time to time. Such reports are available to Members on a real-time and/or intra-day basis as determined by the Corporation from time to time.

(ii) Recording of Cash, Next Day and Seller's Option Transactions

Qualified Special Representatives and Self-Regulatory Organizations on behalf of Members may submit to the Corporation, data relating to cash, next day, and seller's option transactions on securities other than securities processed under Procedure VI. Such trade data may be submitted during the timeframes specified by the Corporation from time to time and shall include such trade details as the Corporation may specify (including, if the transaction is a seller's option, the settlement date, which may be no greater than 180 days beyond the trade date). Results of this input are reported by the Corporation to Members on such reports and in such formats as determined by the Corporation from time to time, and if the securities covered by such trades are CNS-eligible, the recorded trades will be entered into the CNS accounting operation (unless otherwise provided in these Procedures). Cash trades received after such cutoff time as the Corporation designates will be recorded and reported, but may only be settled directly between the parties. Next day as-of trades received on Settlement Date prior to the Corporation's designated cutoff time will settle on that date; otherwise the trade will be assigned a new settlement date which will be the next settlement day following the date the trade is recorded by the Corporation. Trades that are either (i) designated as Special Trades, (ii) in a security which is not CNS-eligible, or (iii) in a security undergoing a corporate action, or (iv) are scheduled to settle between a dividend X date and record date, will be processed on a trade-for-trade basis.

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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.

As provided in Rule 7 hereof, all trade data submitted to the Corporation pursuant to Sections C and D of this Procedure IV, other than trades excluded pursuant to Section 7 of Rule 7, must be submitted in Real-time, as that term is defined in Procedure XIII, and on a trade-by-trade basis, in the form executed without any form of pre-netting of such trades prior to their submission.

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.¹

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

¹ 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.

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 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”)² 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,

² 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.

as all such input shall be submitted pursuant to Procedure II hereof. 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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