SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-62567; File No. SR-NSCC-2010-07)

July 23, 2010

Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of Proposed Rule Change to Amend Addendum C of its Rules and Procedures to Implement Risk Enhancements to its Stock Borrow Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on July 1, 2010, National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") proposed rule change SR-NSCC-2010-07 as described in Items I, II, and III below, which Items have been substantially prepared by NSCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The purpose of the proposed rule change is to amend Addendum C of NSCC's Rules and Procedures ("Rules") to implement risk enhancements so that municipal and corporate bonds would be ineligible for lending through the Stock Borrow Program ("SBP") and so that Members would be prevented from lending securities through the SBP that were issued by that Member or any of its affiliates.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, NSCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

NSCC has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.[3]

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

National Securities Clearing Corporation ("NSCC") proposes amending its Rules to implement risk enhancements so that municipal and corporate bonds would be ineligible for lending through the SBP and so that Members would be prevented from lending securities through the SBP that were issued by that Member or any of its affiliates.

1. Stock Borrow Program Background

In the course of daily operations, NSCC's Continuous Net Settlement ("CNS") system often requires a number of shares for a particular security that exceeds the number of shares available to NSCC through Member deliveries. This can arise for several reasons including satisfaction of Member priority requests for allocation as well as buy-ins submitted by Members. To improve the efficiency of the clearing system in these situations, NSCC's Board authorized implementation of automated stock borrow procedures to meet these needs for shares of a particular CNS security.

Members wishing to participate in the SBP notify NSCC each day[4] of the securities they have on deposit at The Depository Trust Company ("DTC") that are available to be borrowed by NSCC. The daytime and nighttime SBP are separate processes. Members can choose to participate only in the nighttime SBP, only in the daytime SBP, or in both.

After NSCC's nighttime processing of regular deliveries, unsatisfied needs that remain in a particular security are borrowed from Members that identified available securities for the

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3 The Commission has modified parts of these statements.

4 By such times specified by NSCC.

nighttime SBP.[5] Similarly, needs in a particular security remaining unsatisfied at a time designated during the day cycle are borrowed from Members that have delivered instructions specifying available securities for the daytime SBP. Shares borrowed are placed in a special CNS subaccount, and the Member lending the shares is advanced the full market value of the borrowed shares until they are returned. As shares become available, borrowed stock is returned through normal long allocations against the special subaccount.

2. Proposed Amendment to Addendum C of the NSCC's Rules

After reviewing the SBP, NSCC has determined that it faces increased risks in two situations. Specifically, NSCC has identified increased risks when NSCC borrows municipal or corporate bonds and when NSCC borrows securities issued by the lending Member or any of its affiliates. First, if NSCC is unable to timely close out long positions in corporate or municipal bonds that were created by loans of such securities from a Member that becomes insolvent, then NSCC may possess high concentrations of corporate or municipal bonds that it cannot deliver to the insolvent Member. Consequently, NSCC bears an increased risk of loss because it would be forced to liquidate those corporate or municipal bond positions in thinly traded markets. Second, NSCC incurs credit exposure in instances where it borrows securities from a Member that is also the issuer of the securities or is an affiliate of the issuer. In the event that such a Member becomes insolvent, then NSCC incurs the additional risk that the securities issued by the Member or its affiliate and that are lent through the SBP will likely decline in value.

In both situations, NSCC believes there are certain risks posed by the SBP that outweigh the benefits to NSCC and its Members. Accordingly, NSCC proposes amending its Rules so that municipal and corporate bonds would be ineligible for lending through the SBP and so that

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[5] Securities subject to a voluntary reorganization are not borrowed by NSCC after nighttime processing on E+2 through the end of the protected period.

Members would be unable to lend securities through the SBP that are issued by the Member or its affiliates. Members would be advised of the implementation date for these proposed changes through the issuance of an NSCC Important Notice. The language of the proposed changes to NSCC's Rules and Procedures can be found in Exhibit 5 to proposed rule change SR-NSCC-2010-07 at http://www.dtcc.com/downloads/legal/rule_filings/2010/nscc/2010-07.pdf.

NSCC believes the proposed rule changes are consistent with the requirements of Section 17A of the Act[6] and the rules and regulations thereunder because the proposed changes would facilitate prompt and accurate clearance and settlement of securities transactions by establishing appropriate safeguards and enhanced efficiency within the SBP process to mitigate risks that the SBP poses to NSCC.

B. Self-Regulatory Organization's Statement on Burden on Competition

NSCC does not believe that the proposed rule change would impose and burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments relating to the proposed rule change have not been solicited or received. NSCC will notify the Commission of any written comments received by NSCC.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within thirty-five days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve such proposed rule change, or

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6 15 U.S.C. 78q-1.

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NSCC-2010-07 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NSCC-2010-07. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of NSCC. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make publicly available. All submissions should refer to File Number SR-NSCC-2010-07 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[7]

Florence E. Harmon
Deputy Secretary

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[7] 17 CFR 200.30-3(a)(12).